2019 AR

Annual Report 2019

Leading the way in post-harvest innovation.

EastPack
Growers at heart

Ahead of the pack.

EastPack is the largest post-harvest operator in the New Zealand kiwifruit industry and the only co-operative. We bring to our Growers the benefits of large daily capacity while maintaining a close relationship with our Growers.

We recognise that Growers have large investments in their orchards which need to be supported by precision, timing, efficiency and orchard productivity particularly at this time of industry change and cost pressure. We are committed to providing strong results for our Growers through being efficient and driven to maximise fruit potential.

Our scale allows EastPack to invest in new technology and lead the way in developing new tools and processes to help our Growers achieve their ambitions. We have invested significant funds into research and development and invested in new technology such as the construction of the first fully automated coolstores in the industry. Being grower-owned means the benefits from these new technologies will accrue to our Grower shareholders and investors.

Maximise productivity and enjoy more free time.

With many of our Growers now well established in their orchard business, the ability to have their orchard leased or managed is a great option to allow Growers to reduce the stress and time spent running the orchard operations, while maintaining their interest.

We have also seen an increase in new orchard ownership where partnering with an experienced and capable orchard operator has allowed them to maximise the return from their new investment.

As a result, our Prospa Orchard management and contracting division continues to grow with over 1,000 hectares now leased or managed – a 15% increase over 2018.

Our people are key to our success in this area and we have been able to attract and build our orchard management expertise. Prospa-managed orchards have achieved the highest orchard returns in a number of our growing regions.

Prospa
Total Orchard Management by EastPack

CONTENTS

38m

Trays packed in 2019

Down on 2018 but up 55% on 2014 with Gold volumes forecast to grow 73% in next 5 years

CLASS 1 TRAYS PACKED

$36.7m

Invested in Capital Expenditure in 2019

$162.0m spent in last 5 Years but $250m forecast to be spent in next 5 Years

CAPITAL EXPENDITURE

$29.6m

EBITDA (Earnings before Interest, Tax, Depreciation, Amortisation and Fair Value Adjustments) in 2019

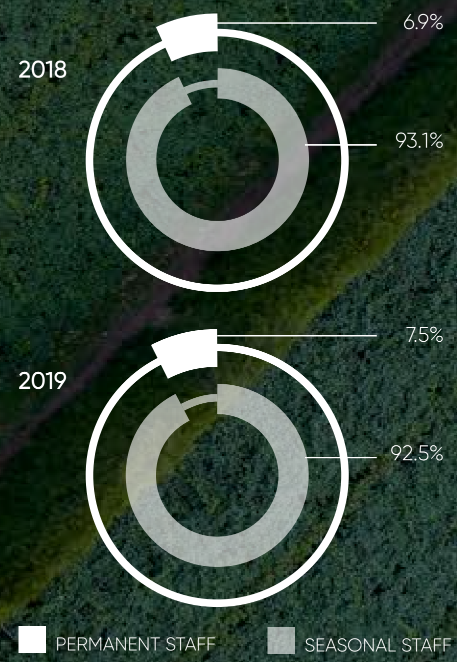
Down 12% on 2018 in conjunction with decrease in volumes.

EBITDA

3,695

Staff employed at peak in 2019

Up 11% on 2018. Permanent staff numbers up 28%.



STAFF EMPLOYED

LOOKING UP

2019 HIGHLIGHTS

GROWERS AT HEART, FUTURE IN MIND

EastPack is pleased to provide you with our 2019 financial report and review. We would like to thank our shareholders who voted in favour of a change in the Company's capital structure at the Special Shareholders meeting in late February 2020. The change in capital structure along with a number of strategic, operational and financial goals achieved during the year continues to position the company to support the significant volume growth from our Growers in the future.

The 2019 season saw a long dry summer which lowered Hayward kiwifruit yields and saw production dip from 2018. We maintained our market share in Green above 28% and have seen Gold volumes continue to increase. The decrease in volumes impacted our profitability which is volume sensitive.

EastPack packed 38.0m trays of kiwifruit for its Growers, down from the record 41.1m trays of kiwifruit in 2018. The 2018 season was a significant volume year having been up 7.6m trays or 23% increase on 2017. However, Gold volumes increased 1.5m trays over 2018 and we were very pleased to be able to successfully pack this fruit with no constraints to harvest, over a short optimal picking window.

We were thrilled to see our people and our performance recognised in the 2019 Westpac Tauranga Business Awards where the company took home the top business awards for Health and Safety, Business Innovation, Manufacturing Excellence and the Supreme Award – Tauranga Business of the Year 2019. Each of these awards would have been a pleasing achievement in its own right, but we were delighted and humbled to be recognised across so many categories and to be recognised with the Supreme Award at the end of the night.

Operational efficiency is a key driver for the business. We continue to invest in areas that can improve efficiency with both capital and process improvements. Staff training and development has also been a strong driver and we have seen some significant improvements in efficiency in 2019 with throughput across the graders improving for Gold overall by 26% from 2017 to 2019. The company is targeting a further 10% improvement in Gold throughput in 2020. This efficiency leads directly to being able to pack more fruit during peak periods and reducing the impact of increasing labour costs.

Costs are increasing across the industry and the availability of labour is a major concern. The government has outlined that the minimum wage will increase to $20 by 2021. This is a 21% increase over three years. EastPack is committed to improving its operational performance to minimise the impact of cost pressures, but also maximising fruit to market and providing a strong Orchard Gate Return to its Growers.

However, efficiency gains and additional investment in infrastructure will only partially mitigate the labour availability and cost pressures that the packing industry is likely to face, especially with the very tight harvest window for G3 which is becoming the dominant part of the crop. The kiwifruit industry has a proud history of finding its own solutions to challenges on orchards, in packhouses, in the supply chain and in the market. The forerunner organisations that gave rise to the modern EastPack were, in various ways and at various times, leaders with many of those new solutions. Given the extent of the challenges to providing service

"WE WERE THRILLED TO SEE OUR PEOPLE AND OUR PERFORMANCE RECOGNISED IN THE 2019 WESTPAC TAURANGA BUSINESS AWARDS WHERE THE COMPANY TOOK HOME THE TOP BUSINESS AWARDS INCLUDING THE SUPREME AWARD – TAURANGA BUSINESS OF THE YEAR 2019.

and protecting returns to current Growers there are significant risks in not moving quickly to implement solutions that will mitigate some of the future risks now becoming apparent.

Prospa, our Orchard Management and Contracting division, continues to grow with over 1,000 hectares now leased or managed – a 15% increase over 2018. Our people are key to success in this area and we have been able to attract and build our orchard management expertise. We have brought on Trainee Managers to build our capability for the future. It was extremely pleasing in the 2019 season to see Prospa-managed orchards attain the highest Orchard Gate Return/Hectare against all other EastPack orchards in two regions for Green and one region for Gold. In 2019, our Prospa contracting division has also grown with additional spray capability added and extending its reach into the Tauranga area.

Financial Result

EastPack's financial result is driven by the volume of fruit that is packed and the 2019 season result reflected this dynamic. The financial result was also impacted by the continued investment in Research and Development with $1.2m expensed through the Profit and Loss Account. The company also disposed of $1.02m in coolstore assets being the book value of the Collins Lane coolstores which were demolished to make way for the new 5-high coolstore at this site.

The financial performance across our sites was robust with emphasis on packing fruit efficiently, ensuring quality standards are met, and maintaining strong fruit management in coolstore. Turnover decreased by 3.7% from $176.8m to $170.0m as a result of the 7.5% decrease in volumes packed.

There is significant cost pressure on the business, especially in labour, with the minimum wage increase impacting all wage rates across the business. In 2019, the minimum wage increased 7.3% to $17.70 and will increase by a further 6.8% to $18.90. With Easter falling in the middle of peak Gold packing period in 2019 staff were required to work additional statutory holidays compared to prior years. The company is also facing increased costs in other areas such as insurance and electricity charges with a significant lift in spot electricity prices in 2019.

With the increase in capital investment and change in accounting for leases under NZIFRS16, depreciation was up $1.3m or 9% on 2018 at $16.9m in total. Interest expense increased slightly due to the increase in borrowings but was offset by lower interest rates.

Rebates have, in prior reports, been included as a cost below earnings before interest, tax, and fair value adjustments (EBIT), but with the new accounting standard (NZIFRS15) this is now disclosed as a deduction from revenue.

Earnings before interest, tax, depreciation and fair value adjustments (EBITDA) of $29.6m was $4.3m or 12.7% below 2018 on a 7.5% volume reduction of 3.1m trays. The impact of volume on the business is apparent with EBITDA in 2018 being 42.7% above 2017 when volumes were 7.6m trays or 22.7% above 2017.

EastPack's land and buildings were revalued as at 31 December 2018 and, following review of market information and relevant data, the Board determined that an asset revaluation was not required. However, in 2019 the company received late invoices for work conducted on construction works at the Washer Road site which were completed prior to the property revaluation in 2018. This has resulted in $2.1m fair value loss adjustment being reflected in the company's Income Statement. Had these invoices been received in good time, then this adjustment would have been made in the 2018 financial year.

"THE OPERATIONAL PERFORMANCE ACROSS OUR SITES WAS ROBUST WITH EMPHASIS ON PACKING FRUIT EFFICIENTLY, ENSURING QUALITY STANDARDS ARE MET, AND MAINTAINING STRONG FRUIT MANAGEMENT IN COOLSTORE.

The impact of the fair value adjustment resulted in EastPack recording a Net Profit after tax of $4.7m down from $9.8m in 2018.

The Board has withheld declaring a final dividend for the year due to the uncertainty around the coronavirus pandemic, but has left the option to pay a dividend later in 2020. A 3.6 cents fully imputed interim dividend was paid in September 2019. Dividends need to be considered in light of the financial and economic situation as well as the forward capital requirements the company finds necessary to maintain a prudent financial position.

EastPack continues to produce good net cash flows from operating activities but has increased borrowings to fund the capital expenditure. Year-end total borrowings of $85.0m compares to 2018 borrowings of $71.4m.

EastPack Key Financial Statistics

	2019	2018	2017
Revenues	**$170.0m**	$176.8m	$144.2m
EBITDA*	**$29.6m**	$33.9m	$23.7m
Rebates paid	**$7.2m**	$7.9m	$6.2m
Dividends paid	**$2.8m**	$2.6m	$1.5m
Net profit before taxation	**$6.5m**	$13.5m	$6.9m
Net profit after taxation	**$4.7m**	$9.7m	$4.9m
Earnings per investor share	**16c/share**	33c/share	16c/share
Number of Transactor Shares	**27,947,000**	25,632,000	23,349,217
Number of Investor Shares	**29,825 ,154**	29,825 ,154	29,825 ,154
Equity ratio *(including Transactor Shares)*	**0.49**	0.50	0.48

NB Rebates have been reclassified as part of Revenue as required under the adoption of a new Accounting Standard (NZIFRS15).

** Earnings before Interest, Tax, Depreciation, Amortisation and Fair Value Adjustments.*

2019 Capital Investment

In 2019, the level of capital expenditure remained high as EastPack continues to invest in capacity to meet future kiwifruit volumes from our Growers.

In 2019, our key investment has been in coolstore capacity with the completion of the new 5-high coolstore at Quarry Road. Construction also started on a similar 5-high coolstore at Collins Lane. These coolstores are fully automated, have energy efficient cooling capability, increase our operational efficiency and also improve site Health and Safety with no forklifts required to enter these coolstores. We have also completed a fully refrigerated marshalling area and loading docks at Quarry Road which will improve the integrity of the cool chain and Health and Safety in loading of containers at our largest site.

Obtaining full insurance cover on our coolstore assets is becoming more difficult following some significant losses by insurance companies especially in Australia but also in New Zealand. The company has taken the decision to ensure all coolstore assets are protected strongly from fire risk and a programme for the installation of full sprinklers and fire protection across all our sites has begun. This will be a significant cost over time with Quarry Road installation currently underway which will then be followed by Washer Road. These works will provide the business with the ability to manage and minimise risk in the event of a fire to allow business continuity for both EastPack and our Growers.

With the impending growth in Gold volumes we will continue to need to invest in infrastructure at high levels over the next five years.

Future Growth Challenge

The future of the kiwifruit industry looks exciting as volumes grow. A number of EastPack's grower-base have new orchard developments and all are focusing on increasing productivity. Growers have expressed that they want EastPack to invest to respond to additional volumes being provided by our shareholders. As Gold volumes grow however, pressure becomes more intense in the peak packing window for this variety. We therefore need to develop ways we can spread the Gold packing window.

"THE NEW ZEALAND KIWIFRUIT INDUSTRY HAS AN EXCITING FUTURE AND EASTPACK NEEDS TO SUPPORT ITS GROWERS WITH CAPACITY TO PACK OR STORE THEIR FRUIT IN A TIMELY MANNER TO MAXIMISE RETURNS.

In 2019, we trialled some initiatives in this area and had good success. In 2020, we are completing upgrades to our Controlled Atmosphere (CA) stores at Quarry Road to further scale up our ability to store Gold in CA and spread the packing window of Gold. We have also employed a dedicated CA Specialist who will manage closely our processes and management of our CA fruit. We will need to invest in upgrading our CA capability across all our sites in the future as volumes grow.

Zespri announced in late 2018, its intention to tender 700 hectares of Gold3 licence and 50 Hectares of Organic Gold3 Licence per annum over five years. The first two tranches were completed in 2018 and 2019 with a further three years of licence release through to 2022 subject to Zespri Board confirmation. The release of 3,500 hectares of Gold3 licence will realise in the order of 50 million trays of new Gold fruit in approximately five years. To date, 50% has been in new kiwifruit developments with the balance being Green conversions. If EastPack maintains its market share of circa 25%, this means an additional 12.5 million trays of Gold fruit to pack. Zespri has also advised they intend to commercialise a new red variety.

The New Zealand kiwifruit industry has an exciting future and EastPack needs to support its Growers with capacity to pack or store their fruit in a timely manner to maximise returns. In order to do this the company will need to continue to invest in capacity, especially in storage but also in automation and more efficient operations.

Capital Structure

The impending growth for EastPack is exciting but also challenging as we seek to be a high service, high performance partner for our Growers.

In 2018, the Board identified that whilst the company had been successful for a large number of years, the capital structure no longer supported the required investment going forward. Therefore, over the course of 2019, the Board developed new capital structure concepts and discussed these with Growers. Following consultation with Growers shareholders, the board and management took a proposal for a new capital structure to shareholders to vote on at a Special Shareholders Meeting in late February 2020. It is impossible to develop a capital structure that perfectly meets every shareholder's needs and at the same time meets the company's capital requirements. The Board is confident that the proposal put forward will provide the company with the robust platform to grow its capital base and be strong in the future. It was therefore extremely pleasing for the Board to have the shareholders vote in favour of the new capital structure.

Two shareholders, who voted against the change to the share structure, exercised their legal right to have their shares repurchased by the company. Consequently the company has agreed to purchase 91,246 Transactor Shares at $1.00 per share and 400,000 Investor Shares at the independent valuation of $2.43 per share

The change from a Transactor and Investor Share structure to a new Ordinary Share structure removes the conflict of the way each share was rewarded being rebates versus dividends and value growth. The change means that all shareholders will participate in the future value of the company. Importantly, the company retains its co-operative status and remains controlled by Growers.

As part of the Special Meeting, shareholders also voted in favour of a new constitution. The new constitution reflects the change to Ordinary shares and introduced the ability of the company to issue preference shares to the general public. Subject to financial market conditions being conducive, the company is proposing to issue preference shares to both Growers and the general public

The results of the vote for each of the special interest groups were:

Interest Class 1 – Transactor Shareholders	**99.28% for**
Interest Class 2 – Investor Shareholders	**97.85% for**
Interest Class 3 – Dry Shareholders	**100.00% for**
Interest Class 4 – Overshared Shareholders	**98.70% for**

"

WE EXPECT 2020 VOLUMES TO REACH A NEW RECORD AND FUTURE YEARS TO GROW FURTHER AS NEW DEVELOPMENTS COME INTO PRODUCTION.

in 2020, once a product disclosure statement and other requirements are provided in accordance with the Financial Markets Conduct Act and other legislation.

On 19 June 2020, the company plans to implement the new capital structure with Transactor Shares and Investor Shares converted into Ordinary Shares. It is expected that after conversion, EastPack will have approximately 102 million Ordinary Shares on issue.

EastPack has increased debt levels in the past three years to fund the significant capital expenditure in order to have sufficient capacity to pack the current volume of trays. With our shareholders' approval of the new capital structure, the company is now in a good position to create a stronger balance sheet and to look to raise capital through preference shares and renegotiate funding facilities to meet the business requirements in the future.

Research and Development

EastPack's strategy and competitive strength is having sufficient capacity to pack Growers' fruit reasonably promptly when each Grower wants their fruit harvested and packed. In 2018, with record crop volumes, we were able to achieve this but turned away a number of potential new Growers seeking to pack with us who were not shareholders. We expect 2020 volumes to reach a new record and future years to grow further as new developments come into production.

Based on the Research and Development completed over the last three years, we believe that we can find techniques to store Gold to spread the packing window of the fruit without impacting upon fruit outcomes. Therefore, further grader capacity is less likely to be required in the near term. However, significant investment will be required in Controlled Atmosphere storage.

Our Research and Development investment will also continue in the automation area as we must find ways to continue to improve efficiency and continue to be able to recruit the requisite numbers of seasonal staff to meet the business needs. We have made good progress in this area and investment is likely to continue over the coming years given the strategic importance.

Health and Safety

EastPack continues to have a very strong focus on Health and Safety and this is a fundamental element of our culture. It was extremely pleasing to win the Westpac Tauranga Business Award in 2019 for Health and Safety, recognising the culture and effort our team have in this regard. The company also received a Health and Safety award at Zespri's Momentum conference for our Forklift interaction project. This project introduced a number of key initiatives to prevent pedestrian and forklift interaction as well as clear demarcation lines where forklifts can drive.

EastPack has maintained tertiary performance level accreditation under the Accredited Employers Programme through ACC. This is the highest level of accreditation under the scheme and allows EastPack to manage our employees' injuries by 'standing in the shoes' of ACC. It also produces significant cost savings in levy rates.

Active participation in Health and Safety occurs from orchard staff through to the sites and to the Board. In 2019, we saw a record in our Total Recorded Injury Frequency Rate (TRIFR) with it falling to 14.6 from 25.5 in 2018. In comparison, the company's TRIFR score in 2015 was 47, highlighting the significant improvement in this measure. The company has dedicated resource and emphasis on Health and Safety in all areas of our business. Growers also need to be aware of their responsibilities, and EastPack will continue to work with our Growers where necessary to ensure we maintain robust health and safety processes across the full spectrum of kiwifruit growing, packing and storing.

Board and Board Structure

A strong Board has been in place in 2019 with six grower directors and two independent directors. In May 2019, shareholders voted two new Board members, Donna Smit and Dylan Barrett, to the Board. Mark Hudson stood down in 2019 and Hendrik Pieters was not re-elected in a close vote. The Board would like to thank Hendrik for his service to our company and our industry and thank him for his dedication and contribution over such a long time. Hendrik was a long-standing member of the Satara Board prior to the merger with EastPack and held a number of governance roles in the industry.

Adrian Gault has advised that he will be retiring from the Board at the 2020 Annual Meeting. Adrian joined the EastPack Board in 2009 and has made a long and strong contribution to the Board during his tenure. He has been a passionate champion of co-operative values. We would like to acknowledge Adrian's dedication and input over this time.

The Board is committed to high quality governance. It is intended that the Board should comprise a balance of experience and fresh thinking. In 2018, the Board created a Board Observer role with the objective of providing potential future directors with insight and development on how a Board operates. Dylan Barrett was elected to the Board in 2019 following his year as Board Observer. Cathy Brown was appointed into the Board Observer role in May 2019 for a year. The Board intends to offer another Observer opportunity to another Grower shareholder when Cathy completes her term.

Our Growers

As the largest post-harvest operator, we strive to remain close to our Growers whilst also delivering the efficiencies of a large organisation.

We would like to thank our Grower Shareholders who have supported us with their business. We also thank our Grower Shareholders for their input and guidance as we have discussed the change in capital structure and then agreed and voted overwhelmingly in favour of the new capital structure.

This vote in confidence gives EastPack the ability to invest for the future of our industry.

We would also like to thank the members of the EastPack Entity Trust Forum for their input and guidance which has been highly valued in 2019.

2020

The 2020 season is shaping up to be another strong volume year with a rebound in Green productivity and further increases in Gold volumes. It is expected that Gold volumes packed will exceed Green volumes packed for the first time this year.

At the time of writing this report there is considerable uncertainty around the impact of Covid-19. Whilst EastPack is deemed an essential business and is currently operating, there is potential for this to cause significant challenges to our Growers, to EastPack, to Zespri and the entire New Zealand kiwifruit supply chain, including global consumers. It is likely that skillful management and some luck will be needed to navigate very significant difficulties that may lie ahead. Much work has been done on risk management and contingency planning, but not all eventualities can be covered to give good solutions.

Acknowledgements

We would like to acknowledge and thank our staff at EastPack for their hard work and dedication to achieve the outcomes for Growers and the result that the team delivered in 2019. We have continued to build and develop a high performing team of people which gives us a lot of confidence going into the future.

2019 has been another year of change and we also acknowledge our Directors and the leadership they have demonstrated over 2019 when the Board has needed to consider the future of the company and agree on the right capital structure for EastPack to meet future aspirations and deliver its potential for Growers. We are confident that our team, along with significant investment in infrastructure, systems and training, is well placed to deliver the service and quality outcomes that our Grower shareholders require in the future.

As the company looks to the future, we also look back to the past and the great legacy that has been built over many years at EastPack, and its forerunner organisations. The Directors, Management and staff of EastPack today are committed to building on that legacy and ensuring that EastPack and its Growers have a great future in an environment that will be quite different from today.

John Loughlin – Chairman

Hamish Simson – Chief Executive Officer

OUR BOARD OF DIRECTORS

EastPack is governed by six Elected Grower Directors and two Independent Commercial Directors.

JOHN LOUGHLIN

Chairman

Independent Director Appointed 2014, BCA, MBA, FCA, INFINZ (fellow), FNZIM, ANZIIF (fellow), AFInstD

Committees:
Member, Audit Committee
Member, Health and Safety Committee
Member, Directors Remuneration Committee

John has extensive past board experience including directorships with Zespri Group Limited, AgResearch Limited, Port of Napier Limited and Toll NZ Limited. John is currently chairman of Powerco Limited, Rockit Global Limited and Meat Industry Association of New Zealand Inc. John is the founder and owner of Askerne Winery.

MICHAEL MONTGOMERY

Elected 2000

Committees:
Member, Health and Safety Committee

Michael has been involved in the kiwifruit industry as a grower and a post-harvest operator since 1981. Michael is chairman of TKL Logistics Limited, which manages wharf and transport services for kiwifruit in the Bay of Plenty. Michael is a board representative on EastPack Entity Trust and completed the Kellogg's Rural Leadership Training Programme in 2002. He owns and operates orchards in the Bay of Plenty, Hawke's Bay and Gisborne Areas.

DONNA SMIT

Elected 2019, FCA

Committees:
Chair, Audit Committee
Member, Health and Safety Committee

Donna has corporate governance and management experience, expertise in strategy and finance, and practical knowledge across multiple rural industries.

She comes from a rural background in Edgecumbe and has been involved in the kiwifruit industry for many years. Donna worked at EastPack as Company Administrator for 24 years and is currently developing a 13 hectare G3 orchard.

DYLAN BARRETT

Elected 2019, BBS (VPM), MInstD

Committees:
Member, Remuneration and Appointments Committee
Member, Health and Safety Committee

Dylan is a Registered Valuer specialising in commercial, industrial and horticultural property. He holds a Bachelor of Business Studies majoring in Property Valuation & Management, completed the Kellogg's Rural Leadership Programme and has completed a wide range of governance training courses through the Institute of Directors.

Dylan's involvement in the Kiwifruit industry began with private orchard ownership, and then later extended to further investment in a larger syndicate orchard, all of which are situated in the Te Puke region. Dylan is a board representative on EastPack Entity Trust. Further involvement includes Kiwifruit valuation and advisory work and a Chairman role with KEL Rangiuru Limited.

MARK GILES

Independent Director Appointed 2014, B Ag Econ

Committees:
Member, Remuneration and Appointments Committee; Member, Health and Safety Committee

Mark joined EastPack as an independent director in 2014. Mark has a broad range of skills and successful track-record throughout a diverse business life. His leadership and governance experience has spanned across large multinationals to home-grown New Zealand companies and the not-for-profit sector. Mark has extensive international General Management, sales and marketing experience and has served on a number of boards including those of Vodafone New Zealand and Alcatel New Zealand. Mark is currently Independent Director and Chairman at ITM Co-operative Limited, chairman of Coretex Limited and Techspace Consulting Limited. Mark holds a Bachelor of Agricultural Economics from Massey University.

ADRIAN GAULT

Elected 2009, BAgSci, IOD Directors Certificate

Committees:
Member, Audit Committee
Member, Health and Safety Committee

Adrian has many years of agriculture and horticulture experience. He is the past Chairman of Kiwifruit Vine Health, holds a Bachelor of Agricultural Science and is a Nuffield Scholar (2000). He has also completed the Fonterra Governance Leadership programme. Adrian owns and operates kiwifruit orchards in the Bay of Plenty region.

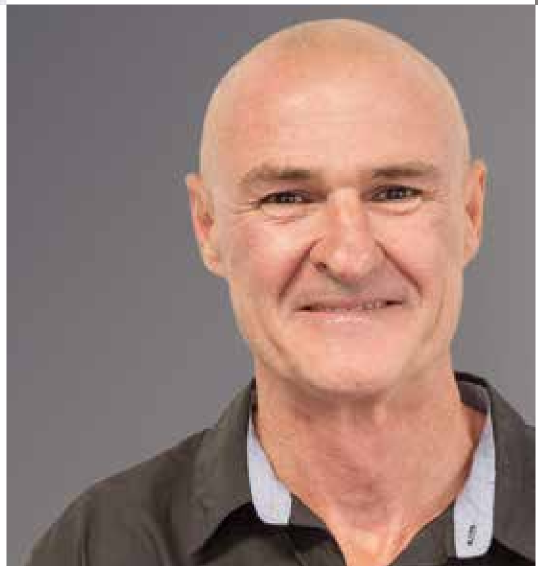
DAVID JENSEN

Elected 2018, B.Agr. Dip Agri.Sc

Committees:
Chairman, Remuneration and Appointments Committee
Member, Health and Safety Committee

David is an experienced Director of several Co-operative and private companies. He is a past director of Satara and has been the past Chairman of the EastPack Entity Trust. He and his family own and operate orchards in the Tauranga region.

David is a director of Livestock Improvement Corporation Limited and a previous director of Farmlands Co-operative Limited.



MURRAY MCBRIDE

Elected 2009, IOD Directors Certificate, IOD Audit and Risk Certificate

Committees:
Chairman, Health and Safety Committee

Murray has been involved in the kiwifruit industry since 1979. He managed the McBride family post-harvest facility and purchased his first orchard in 1990. Since then, Murray has been heavily involved in developing Gold orchard plantings and is renowned in the industry as a leader in this field.

SENIOR LEADERSHIP TEAM

At EastPack, we're clear about what we're here to achieve; the success of our Growers.

Our high performing team is committed to ensuring EastPack and its Growers have a great future.

PHIL KARL

DipDairyTech

General Manager – Operations

"New Zealand owes its prosperity and lifestyle to the generations of people that have worked to create produce. It is our, and my personal privilege to be trusted to add value and create prosperity for our valued Grower shareholders."

MERV DALLAS

BCom FCA

Chief Financial Officer

"Growers at Heart sums up the co-operative nature of our business. From a financial perspective it is about being transparent, honest and respectful in everything we do, and being efficient and effective as a business to provide the best financial returns to our Grower shareholders."

HAMISH SIMSON

BCOM

Chief Executive

"Everything we do at EastPack is for the benefit of our Growers. They are our customers and our shareholders – our culture is to get the very best outcome for their fruit and to deliver excellent shareholder returns."

BRADEN HUNGERFORD

BAV

General Manager – Grower & Orchard Performance

"Healthy things Grow. Our job is to create the environment to allow it to happen. Right people, right passion, right process."

NEIL TE KANI

Maori Relations Manager

"As a co-operative we have our Growers at heart. They are an integral part of our business and we are firmly focused on delivering real value to our Grower community."

RICHARD FRASER-MACKENZIE

BCOM CA

General Manager – Supply & Logistics

"Growers at heart has provided an easy reference point for my team and I to make decisions and set values which are aligned to our stakeholder suppliers."

GINNY MOORE

BTECH (Food Technology)

Business Improvement Manager

"Increasing customer value is the key philosophy behind our continuous improvement programme. Growers at Heart guides our strategic and daily decision-making to ensure we deliver great results now and in the future."

TOTAL LIGHTS OUT OPERATION

HOLDS A MILLION TRAYS

Management has been challenged to innovate and think laterally to find new ways to do things that mitigate the risks that both EastPack and our Growers face in our part of their business.

The company has continued to invest in new and upgraded plant, precooling and cool storage capacity, with the highlight being the construction of the kiwifruit industry's first fully automated 5-high coolstore at our Quarry Road site. This coolstore has the capacity to store 1.2m trays of fruit, has the ability to move more than 1,000 pallets in a day and has no staff working inside the coolstore, improving health and safety whilst improving the integrity of the cool chain for fruit. A further 5-high fully automated coolstore at our Collins Lane site is also nearing completion.

A strong focus on Research and Development and innovation has seen the company develop some promising new technologies for automating aspects of our business. The details of our innovation work are commercially sensitive and thus confidential. The ideas have been innovative, and the progress continues to be encouraging. We are looking to test these new technologies in 2020 at speed and in a production type environment. In 2019, EastPack incurred $1.2m in Research and Development costs. This has been monitored by the Board who are balancing the risks of possible failure in the new initiatives against the risks of an inadequate response to the challenges. As we have gone through our Research and Development programme, a number of other opportunities in other parts of our business have materialised and we therefore expect that further investment will be undertaken in 2020 and future years.

GOLD IS RAMPING UP

"WITH ZESPRI PLANNING ON RELEASING 3,750 HECTARES OF NEW GOLD LICENCES OVER FIVE YEARS, THE NEW ZEALAND KIWIFRUIT INDUSTRY WILL PRODUCE IN EXCESS OF 50 MILLION MORE TRAYS OF KIWIFRUIT IN THE NEXT SEVEN YEARS.

2019 IN OUR COMMUNITY

Backing our community since 1983.

In 2019 we partnered with a wide range of organisations participating in a number of events and initiatives, and continued some key partnerships:


St John Ambulance, Ōpōtiki

EastPack has partnered with the Ōpōtiki St John and installed three defibrillators in the community. They are currently located at the EastPack Ōpōtiki site, Ōpōtiki Golf Club, and Ōpōtiki Fire Station, and another will be installed at the Waiotahi Settlers Hall.

Our support has also helped the Ōpōtiki St John to earthquake-proof their premises.

Maketu Coastguard EastPack Rescue Boat

The Maketu Volunteer Coastguard is run by a team of dedicated volunteers who are passionate about serving their local community. They give their time freely and are on-call 24 hours a day providing search and rescue, public education and training services to the wider Maketu area. Their primary vessel, EastPack Rescue, has saved countless lives. It is a 12m Robson design powered by 880Hp twin jets. Moored on the Kaituna River at the Ford Road boat ramp, she is ready to respond through the Kaituna Cut.

Whakatāne Kiwi Trust

We adopted and named our very own North Island Brown Kiwi chick as a result of our partnership with Whakatāne Kiwi Trust, a community-lead charity promoting the protection of kiwi and other indigenous species in Whakatāne.

Adopting a kiwi is a significant milestone for EastPack and our staff took great pride in naming our chick. Suggestions came in from staff across our six sites and our CEO Hamish randomly drew the winner out of a hat. Our kiwi chick is named Browny.

Born in March, Browny was released into reserve lands in the Whakatāne region protected by The Whakatāne Kiwi Project. At Browny's last health check, the chick weighed 1020g and was considered 'stoat proof' with much higher chances of survival now that Browny has reached adolescence. DNA analysis of its feathers are pending to tell us the gender.




The Graeme Dingle Foundation

Phil Karl (General Manager Operations), Adrian Osterman (Site Manager, Collins Lane) Alan Davidson (Site Manager, Quarry Road), and Matt Bowker (Site Manager, Washer Road) took the leap 10,000 feet out of a plane and raised $4,346 to go towards the incredible work the foundation does in our community.

The Graeme Dingle Foundation run Project K, Kiwi Can, and Stars reach more than 3,500 young people in the Bay of Plenty. These are all proven successful school-based programmes that aim to inspire young people to reach their full potential and help to build their self-esteem, promote good values and teach valuable life education and health skills. Many of our local Growers, employees and families have children involved in Kiwi Can, so it's a cause close to home and close to our hearts.


2019 IN OUR COMMUNITY

PAVING THE WAY

EastPack took home the ACC Workplace Health and Safety Award, the Business Innovation Award, the Manufacturing and Distribution Award as well as the Supreme Award of Tauranga Business of the year 2019 at an awards ceremony in November 2019.

2019 WESTPAC TAURANGA BUSINESS AWARD

2019 BUSINESS INNOVATION AWARD

EastPack has a strong focus on Health and Safety and it was extremely pleasing therefore to win the Westpac Tauranga Business Award in 2019 for Health and Safety, recognising the culture and effort our team have in this regard. The judges of the award commented on how EastPack did not just demonstrate mere compliance but had gone the extra mile with early detection systems for pain and discomfort and management overall of Health and Safety.

The Business Innovation Award reflects the strategy of the company to continue to innovate and look for new ways to operate the business including the fully automated coolstores and research and development work being undertaken. The judges were also impressed in the way the company was utilising technology and noted the advancements in technology solutions to eliminate people and forklift interaction risk and in the technology to manage inventory.

Receiving the Manufacturing & Distribution Award was particularly pleasing for our operations team and recognises the gains made in improving EastPack's operational performance. The company has a large number of efficiency measures and uses these to drive the business.

The 26% increase in throughput across the same graders from 2017 to 2019 for Gold kiwifruit is testament to the improvements being made.

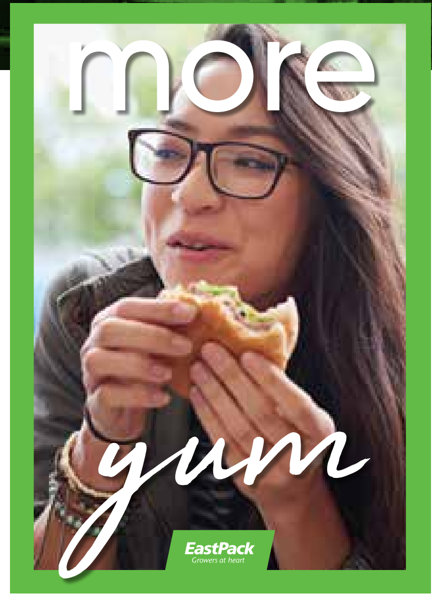
To win the Supreme Award reflected the drive from our Board and Management right through to all our staff to operating a business our shareholders and staff are proud of.

2019 ACC WORKPLACE AWARD

2019 MANUFACTURING & DISTRIBUTION AWARD

TAKING THE LEAD

FOR EMPLOYMENT IN THE KIWIFRUIT INDUSTRY



Our people give us our edge, They are our key assets. Overall, EastPack's staffing levels peaked at over 3,600 employees in 2019, the vast majority being seasonal employees.

We have a large number of returning staff each year which provides good stability in our workforce. We also have large numbers of new staff each year and a great induction and training programme is a key requirement.

After the labour shortage experienced in 2018, our challenge was to create a strategy on how we engage in excess of 3,000 staff and let them know how great it is to work at EastPack. From that, a very successful 'More' advertising campaign was launched which created a huge amount of awareness and an impressive response with 1.5 million views of our recruitment video. From this we received 8,990 online work applications. We continue to maintain a strong focus on supporting local work in our community and, of the applications we received, 43% were submitted locally and the rest were received internationally.

As a result of this successful campaign, we achieved the majority of our manning targets in 2019. A similar campaign has been run in 2020.

With the continuing shortage of requisite skilled people and competition from other employers, we continue to focus on improving recruitment, welfare, training and retention of staff. The company has increased the number of permanent staff in the business from approximately 200 in 2018 to just under 300 in 2019 providing a more secure base of people. These were existing seasonal roles that previously ran for most of the year and were to all intents permanent, but without that recognition.

> **"WE CONTINUE TO MAINTAIN A STRONG FOCUS ON SUPPORTING LOCAL WORK IN OUR COMMUNITY.**

The company has dedicated resources to provide strong induction and training programmes for our staff with clear pathways for staff to grow within the business. Our new online tool 'Grow Me – Performance' was launched in February 2019. This tool supports the annual EastPack performance appraisal cycle, ensuring we maintain our strong focus on developing people in line with our succession planning.

In 2019, we recruited 527 staff from the Pacific Islands and other areas under the Recognised Seasonal Employer (RSE) scheme and this is expected to grow to 590 staff in 2020. The government has been supportive in maintaining numbers of RSE workers and we have seen a small increase to our allocation in 2020. We also have a partnership with Work & Income focusing on employing local labour for longer. The government is cognisant of the seasonal workers required for the kiwifruit industry and they are setting expectations of employing New Zealanders and ensuring all workers are treated fairly.

The team worked extremely hard through the 2019 season. Whilst volumes were slightly down in 2019, the season was marked by a number of peak periods with Kiwistart, Mainpack Gold and Green having strong peaks putting pressure on our staff at these times. It is a credit to our team that we managed not only to work through these peaks but also to achieve record low health and safety measures.

STATEMENT OF CORPORATE GOVERNANCE

Good corporate governance is acting and leading with integrity and maintaining a high standard of business ethics, underpinned by written policies and procedures which ensure that the culture and expectations are clearly understood and respected throughout EastPack. The Board considers it essential that a high standard of corporate governance practices are in place across the organisation, starting with the Directors themselves at Board level. This section provides an overview of the key elements of EastPack's corporate governance framework.

EastPack Limited is regulated by the provisions of the Companies Act 1993, the Co-operative Companies Act 1996 and other relevant legislation governing the duties of directors, including financial reporting obligations, offering and trading in securities, employment, environment, and health and safety. As EastPack also issues shares, it is required to comply with all requirements of applicable securities legislation, including the Financial Markets Conduct Act 2013 and, therefore, share transactions and some EastPack publications are subject to scrutiny by the Financial Markets Authority.

Financial Statements

It is the directors' responsibility to ensure preparation of financial statements that give a true and fair view of the financial position of EastPack as at the end of the financial year and the results of operations and cash flows for the year. The external auditors are responsible for expressing an independent opinion on the financial statements.

The financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practice. They are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable judgements and estimates.

After reviewing internal management financial reports, budgets, current banking facilities and considering the operational performance in light of the coronavirus pandemic at the date of this in report, the directors believe that the EastPack Group will continue to be a going concern in the forseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

The Company's constitution requires a minimum number of six shareholder directors. Of those shareholder directors, not less than four shall hold Transactor Shares, and not less than two shall hold Investor Shares. The maximum number of directors is nine.

At least one third of directors shall retire from office each year at the Annual Meeting but shall be eligible for re-election. The retiring directors must be those directors who have been longest serving since they were last elected.

In addition to the shareholder directors, the Board may appoint not more than two persons to be directors of the Company for such period as the Board shall think fit. An appointed director shall not be taken into account in determining the number of directors who are to retire by rotation at any annual meeting and he or she shall cease to hold office as a director at the expiration of the period for which he or she was appointed.

The Board currently comprises six shareholder directors, and two appointed directors. One of the appointed directors has become a grower and a shareholder since his appointment.

The directors have a wide range of skills and expertise that they use to the benefit of EastPack.

The primary responsibilities of the Board include:

- to establish the vision of EastPack
- to establish long term goals and strategies for EastPack
- to approve annual financial reports
- to approve annual budgets
- to approve corporate policies
- to ensure EastPack has good internal controls and keeps adequate records
- to ensure legislative compliance
- to monitor the performance of executive management
- to appoint the CEO and fix terms of employment
- to ensure appropriate communication to stakeholders

Board procedures are governed by the Constitution and the Board's Operating Manual which includes a Board Charter and Code of Ethics.

Conflicts of Interest and Related Parties

Directors disclose any general and specific interests that could be in conflict with their obligations to the Company. The Company maintains a register of disclosed interests. Transactions with related parties and balances outstanding relating to the year ending 31 December 2018 are disclosed in note 28 of the Notes to the Financial Statements.

Risk Management

The management of risk is a key focus for the Board. A risk management system is in place which is used to identify and manage all business risks. The risk profile is reviewed annually and monitored regularly throughout the year.

The Board monitors the operational and financial aspects of EastPack and considers recommendations from external auditors and advisors on the risks that EastPack faces.

The Board ensures that recommendations made are assessed and appropriate action is taken where necessary to ensure risks are managed appropriately.

Internal Controls

It is management's responsibility to ensure adequate accounting records are maintained.

Directors are responsible for EastPack's system of internal financial controls. Internal financial controls have been implemented to minimise the possibility of material misstatement. They can provide only reasonable assurance and not absolute assurance against material misstatements or loss. No major breakdowns of internal controls were identified during the year.

Committees

The Board operates the following standing committees:

- Audit Committee
- Remuneration and Appointments Committee.
- Health and Safety Committee
- Directors' Remuneration Committee

Audit Committee

The primary objective of the Committee is to assist the Board of Directors in fulfilling its responsibilities and regulatory compliance relating to the accounting and reporting practices of EastPack and each of its subsidiaries. In addition, the Committee:

- Monitor and administer any conflicts of interest which may arise, in particular those resulting from EastPack being a grower co-operative
- Review the recommendations and the audit conducted by the external auditors
- Review the financial information presented by management and recommend to the Board the approval of Financial Statements for release to shareholders, regulators and the general public
- Monitor the appropriateness and effectiveness of EastPack's administrative, operating and accounting controls
- Review and advise on the risk management practices of EastPack
- Approve the internal audit programme, receive reports and address recommendations considered appropriate

This committee is chaired by Donna Smit.

Health and Safety Committee

The role of the Health and Safety Committee is to assist the Board in discharging its responsibilities relative to Health & Safety performance and regulatory conformance. In addition, the Committee:

- Liaise with management and relevant staff in Health and Safety
- Review the annual Health and Safety audit plan
- Assess the performance of Health and Safety
- Review Health and Safety reporting/policies/procedures/implementation
- Oversee compliance with statutory responsibilities relating to Health and Safety
- Understand the hazards that employees and contractors face in the course of their roles with and for EastPack and the management of those hazards
- Ensure recommendations are actioned by management

This committee comprises the full Board and is chaired by Murray McBride.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee has the responsibility to make recommendations in respect of the appointment of Directors and the appointment and remuneration of senior executives and related matters. This committee is chaired by David Jensen.

Directors' Remuneration Committee

The Committee comprises the Chairman of the Board and three Grower shareholders appointed at the shareholders' Annual General Meeting. The Committee reviews and recommends the level of directors' remuneration to be approved by shareholders at the Annual Meeting. The members of this committee are Peter McBride, Ken Edkins, and Ray Sharp, with John Loughlin representing the Board.

The Board also currently operates the following working committees:

- Information Systems Committee
- Leadership Committee

The Board also operated a Due Diligence Committee during the development of documentation leading up to the Special Shareholders' Meeting on the 26th of February 2020.

Attendance at Meetings

The Board currently meets formally ten times each year, with additional meetings held as required. The meeting format follows guidelines that ensure all directors have available the necessary information to participate in an informed discussion on all agenda items. Separate strategic planning meetings are held annually in conjunction with the senior management team.

Directors' Remuneration

Directors' remuneration during the year is disclosed in the Statutory Information section of this report.

Employee Remuneration

Employee remuneration greater than $100,000 per annum received in their capacity as employees during the year is disclosed in the Statutory Information section of this report.

Entries in the Interests Register

In addition to the interests and related party transactions disclosures in Note 26 and Note 28 respectively of the Notes to the Financial Statements, there were no interests disclosed to the Board during the year.

STATUTORY INFORMATION

As required by Section 211 of the Companies Act 1993 we disclose the following information:

EastPack's principle activities during the year were:

- Packing and coolstorage of kiwifruit
- Orchard management

Directors' Interests:

- D.J. Barrett, A.A. Gault, M.T. Giles, D.P. Jensen, M.R. McBride and M.J. Montgomery, own orchards for which EastPack provides services under normal commercial terms.
- M.R. McBride and M.J. Montgomery own kiwifruit contracting businesses that provide labour and contracting services to EastPack Limited under normal commercial terms.
- M.J. Montgomery is a Director of Pine Valley Orchards Ltd., which has a loan outstanding with EastPack Ltd on commercial terms, which reflect an option to develop a facility on land owned by Pine Valley Orchards Ltd. This company has plans to develop a new kiwifruit post-harvest facility at Lemon Road, Paengaroa.
- M.J. Montgomery is a Trustee of a trust that leases coolstores to EastPack Ltd under normal commercial terms.
- MJ Montgomery is a Director of a Company that has plans to develop a new kiwifruit post-harvest facility at Lemon Road Paengaroa.
- J.J. Loughlin is the Chairman of Powerco Limited which reticulates electricity to four EastPack Ltd sites, with its charges being invoiced to EastPack Limited by an energy retailer.

Share Dealing:

Directors acquiring shares or any interest in shares in the Company during the year are as follows:

	SHARES ACQUIRED DURING THE YEAR		SHARES SOLD DURING THE YEAR	
	TRANSACTOR	INVESTOR	TRANSACTOR	INVESTOR
D.J. Barrett	7,218	–	–	–
A.A. Gault	63,923	–	–	–
M.T. Giles	6,611	–	–	–
D.P. Jensen	27,935	–	–	–
J.J. Loughlin	–	–	–	–
M.R. McBride	2,568	–	–	–
M.J. Montgomery	–	–	–	–
D.M. Smit	–	–	–	–

All Transactor Shares were issued at $1 per share.

Remuneration & Other Benefits:

The following persons held office as director during the year and received the following remuneration:

	REMUNERATION ($)	
	2019	2018
D.J. Barrett	31,859	–
A.A. Gault	50,000	47,333
M.T. Giles	50,000	47,333
R.M. Hudson	18,397	48,333
D.P. Jensen	50,000	33,333
J.J. Loughlin	112,500	105,800
M.R. McBride	50,000	47,333
M.C. Maltby	–	14,000
M.J. Montgomery	50,000	48,333
H.J. Pieters	18,397	47,333
D.M. Smit	31,859	–

Remuneration of Employees:

The number of employees, who are not directors, whose remuneration and benefits exceeded $100,000 in the financial year were:

	GROUP
$100,000 – $109,999	10
$110,000 – $119,999	3
$120,000 – $129,999	5
$130,000 – $139,999	9
$140,000 – $149,999	2
$150,000 – $159,999	3
$160,000 – $169,999	2
$170,000 – $179,999	1
$210,000 – $219,999	1
$220,000 – $229,999	1
$240,000 – $249,999	2
$270,000 – $279,999	2
$770,000 – $779,999	1

Donations

No donations of a material nature were made by EastPack during the year.

Use of Company Information:

The Board received no notices during the year from directors requesting the use of Company information received in their capacity as directors which would not have been otherwise available to them

Co-operative status

In the opinion of each director, the Company is a co-operative company within the meaning of that term given by the Co-operative Companies Act 1996 and for the following reasons:

(a) The Company continues to carry on, as its principal activity, a co-operative activity as set out in Section 3 of the Co-operative Companies Act 1996;

(b) The constitution of the Company states its principal activities as being co-operative activities; and

(c) Not less than 60% of the voting rights of the Company are held by transacting shareholders as defined in section 4 of the Co-operative Companies Act 1996.

For and on behalf of the Board:

John Loughlin – Chairman
29 April 2020

TOP 20 SHAREHOLDERS 2019

Shareholder	TRANSACTOR SHARES HELD	INVESTOR SHARES HELD	TOTAL SHAREHOLDING
Trinity Lands Ltd	582,900	2,780,027	3,362,927
Pine Valley Orchard Ltd	407,712	1,680,000	2,087,712
Wotton Trust	385,048	948,942	1,333,990
Cape Fruit Co Ltd	337,697	874,954	1,212,651
Frontier Orchards Ltd Partnership	478,383	706,546	1,184,929
Farmgold Ltd	81,463	934,183	1,015,646
Tirohanga Fruit Co – Sharp	246,319	709,852	956,171
Franklin C A	307,181	567,194	874,375
Reekie KJ Family Trust	269,454	586,004	855,458
Blennerhassett & Son Ltd	215,243	580,108	795,351
Kiwimac Ltd	391,673	400,000	791,673
Flowers R J	138,244	632,186	770,430
Casey E & N	371,390	390,197	761,587
Steele Family Trust	263,537	435,544	699,081
West Partnership R J & K	216,858	422,080	638,938
Wedge Co Limited	192,663	392,598	585,261
Windmill Trust	–	561,286	561,286
Kopuatawhiti Trust	236,069	310,850	546,919
Otara Land Co	240,282	298,778	539,060
Maple Orchards Ltd	134,414	400,000	534,414

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2019

	NOTES	2019 ($000'S)	2018 ($000'S)
Revenue	6	170,032	176,831
Packaging materials		(35,492)	(40,412)
Employee benefits expense		(70,133)	(58,191)
Directors compensation		(478)	(454)
Other expenses	7	(34,284)	(43,925)
		(140,387)	(142,982)
Earnings before interest, tax, depreciation and fair value adjustments		**29,645**	**33,850**
Depreciation	15, 25	(16,930)	(15,589)
Earnings before interest, tax and fair value adjustments		**12,715**	**18,261**
Interest expense		(4,112)	(3,853)
Earnings before tax and fair value adjustments		**8,603**	**14,407**
(Loss)/gain on revaluation of property, plant and equipment	25	(2,132)	(924)
Net profit/(loss) before taxation		**6,471**	**13,483**
Add/(less) taxation	8	(1,722)	(3,640)
Net profit/(loss) after taxation		**4,749**	**9,843**
Net profit/(loss) attributable to:			
Owners of the Company		4,749	9,843
Non controlling interest		–	–
Net profit/(loss) after taxation		**4,749**	**9,843**
Earnings per share			
Basic and diluted earnings per share	9	$0.16	$0.33

These financial statements should be read in conjunction with the Notes to the financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	NOTES	2019 ($000'S)	2018 ($000'S)
Net profit/(loss) after taxation		4,749	9,843
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain/(Loss) on revaluation of property, plant and equipment, net of tax	11	(493)	4,817
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of equity investments at Fair value through the comprehensive income	11	2,291	(23)
Other comprehensive income for the year		**1,798**	**4,794**
Total comprehensive income for the year		**6,547**	**14,637**
Total comprehensive income attributable to:			
Owners of the company		6,547	14,637
Total comprehensive income for the year		**6,547**	**14,637**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	NOTES	SHARE CAPITAL ($000'S)	OTHER RESERVES ($000'S)	RETAINED EARNINGS ($000'S)	TOTAL ($000'S)
Opening balance 1 January 2018		12,847	25,646	31,872	70,365
Net profit/(loss) after taxation				9,843	9,843
Other comprehensive income, net of tax	11	–	4,794	–	4,794
Total comprehensive income for the year		–	4,794	9,843	14,637
Dividends paid	12	–	–	(2,575)	(2,575)
Closing balance 31 December 2018		12,847	30,440	39,140	82,427
Application of NZ IFRS 16, leases	15			(148)	(148)
Adjusted balance at 1 Jan 2019		**12,847**	**30,440**	**38,992**	**82,279**
Net profit/(loss) after taxation		–	–	4,749	4,749
Other comprehensive income, net of tax	11	–	1,798	–	1,798
Total comprehensive income		–	1,798	4,749	6,547
Dividends paid	12	–	–	(2,790)	(2,790)
Closing balance 31 December 2019		12,847	32,238	40,951	86,036

These financial statements should be read in conjunction with the Notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	NOTES	**2019 ($000'S)**	2018 ($000'S)
Equity			
Share capital	10	12,847	12,847
Reserves	11	32,238	30,440
Retained earnings		40,951	39,140
Total equity		86,036	82,427
Non current liabilities			
Deferred taxation	8	8,913	9,828
Transactor share capital	17	27,948	25,632
Refunds due to resigned shareholders	18	1,105	1,512
Borrowings	19	70,000	61,092
Lease liabilities	15	2,845	–
Total non current liabilities		110,811	98,063
Current liabilities			
Borrowings	19	15,000	10,304
Lease liabilities	15	1,162	–
Trade and other payables	13	18,220	21,991
Employee entitlements	16	1,056	1,001
Provision for taxation	8	243	1,688
Refunds due to resigned shareholders	18	901	1,398
Contract liabilities	14	717	625
Total current liabilities		37,299	37,007
Total funds employed/liabilities		234,146	217,496
Non current assets			
Property, plant and equipment (PPE)	25	205,119	188,586
Right of use assets (ROU)	15	3,934	–
Investments	26	6,950	4,614
Unpaid Transactor Shares	24	98	98
Total non current assets		216,101	193,298
Current assets			
Cash and cash equivalents	20	1,663	9,173
Trade and other receivables	21	8,762	8,726
Biological assets	22	3,654	3,406
Inventories	23	3,966	2,895
Total current assets		18,045	24,199
Total assets		234,146	217,496

For and on behalf of the Board

John Loughlin – Chairman
29 April 2020

Donna Smit – Director
29 April 2020

These financial statements should be read in conjunction with the Notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	NOTES	**2019 ($000'S)**	2018 ($000'S)
Cashflows from operating activities			
Cash was provided from:			
Receipts from customers		176,309	184,584
Interest received		176	180
Dividends received		847	607
		177,332	185,371
Cash was applied to:			
Payments to suppliers and employees		(155,109)	(152,058)
Interest paid		(3,868)	(3,853)
Lease interest paid		(143)	–
Taxation paid		(1,445)	(4,583)
		(160,565)	(160,494)
Net cash flows from operating activities	27	**16,767**	**24,877**
Cashflows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		–	318
		–	318
Cash was applied to:			
Payment for purchase of investments		(45)	47
Purchase of property, plant and equipment		(36,283)	(25,305)
		(36,328)	(25,258)
Net cash flows from investing activities		**(36,328)**	**(24,940)**
Cashflows from financing activities			
Proceeds from borrowings		15,000	4,092
		15,000	4,092
Cash was applied to:			
Issue of Transactor Shares		2,984	3,579
Payment of lease liability		(1,572)	–
Payment of dividends		(2,790)	(2,575)
Redemption of shares		(1,571)	(941)
		(2,949)	62
Net cash flows from financing activities		**12,051**	**4,154**
Net (decrease)/increase in cash and cash equivalents		(7,510)	4,091
Opening cash and cash equivalents		9,173	5,082
Closing cash and cash equivalents	20	**1,663**	**9,173**

These financial statements should be read in conjunction with the Notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

EastPack Ltd (the "Company") is a co–operative Company domiciled and incorporated in New Zealand under the Companies Act 1993 and registered under the Co–operative Companies Act 1996. The Company is an FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013.

The principal activities of the Group are operating a packhouse, providing coolstorage services and providing orchard management.

The consolidated financial statements for the "Group" are for the economic entity comprising the Company and its subsidiaries per Note 26. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013.

The financial statements were approved by the Board of Directors on 29 April 2020. Once issued, the Directors do not have the power to amend these financial statements.

(a) Basis of preparation of the financial report

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Compliance with IFRS

These financial statements comply with generally accepted accounting practice in New Zealand ("NZ GAAP"). Comparative information has been updated to be consistent with current year presentation where appropriate. For the purposes of complying with NZ GAAP, the Company is a for–profit entity. The financial statements also comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS").

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

Historical Cost Basis

The financial statements has been prepared on a historical cost basis, with the following exceptions:

- Available–for–sale investments are measured at fair value
- Land and buildings are remeasured using the revaluation model
- Biological assets are measured at fair value

Functional and Presentation Currency

These financial statements are presented in New Zealand dollars, which is both the Company and the Group's functional and presentation currency. The amounts are rounded to the nearest thousand dollars ($000) unless otherwise stated.

Accounting for Goods and Services Tax

All revenue and expense transactions are recorded exclusive of GST. Assets and liabilities are similarly stated exclusive of GST, with the exception of receivables and payables, which are stated inclusive of GST. The net amount of GST recoverable from, or payable to, Inland Revenue, is included in the Statement of Financial Position.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2019 and the results of subsidiaries and associates for the year then ended.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair values of the assets transferred, the liabilities incurred or assumed and the equity interests issued at the date of exchange. Acquisition–related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition–by–acquisition basis, the Group recognises any non–controlling interest in the acquiree either at fair value or at the non–controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non–controlling interest in the acquiree and the acquisition–date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter–company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associate companies

Associates are all entities over which the Group has significant influence but not control, generally evidenced by a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting after initially being recognised at cost.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The Group's share of its associates' post–acquisition profits or losses is recognised in profit or loss, and its share of post–acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post–acquisition movements are adjusted against the carrying amount of the investment. Dividends received from associates are recognised in the parent entity's profit or loss, while in the consolidated financial statements they reduce the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of the impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to profit/(loss) of associates in profit or loss.

Profits and losses arising from upstream and downstream transactions are recognised in the Group's financial statements only to the extent of the unrelated investors' interests in the associates. Unrealised gains on transactions between the Group and its associates are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Revenue

The Group's major revenue streams are post harvest operations and orchard management.

Post harvest

The Group enters into two standardised post harvest contracts. For each type of contract, all performance obligations are satisfied within the reporting period.

- The performance obligations of the first contract are to collect the fruit via picking and transportation as well as maturity testing which is provided as needed. The charges are separated in the contract. All revenue is recognised when the service is performed.
- The performance obligations of the second contract type are to; pack fruit, to cool and despatch fruit, and to sell class 2 fruit to authorised markets. These are stand alone services provided by EastPack. Each performance obligation has a separate transaction price detailed in the contract and the obligations are recognised when services are performed; packing fruit as fruit is packed, cooling fruit as fruit is loaded out from the coolstores and class 2 as fruit is sold.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Orchard management

The Group enters into two orchard management contracts that are largely standardised:

- The first is the management contract where the performance obligations are to manage fruit production. Revenue is recognised as the service is performed and is calculated at cost plus a margin as per the contract. The management fee included in the contract is recognised evenly over the contract's 12 month period. An incentive fee based on the volume of kiwifruit produced is only recognised when production is complete and the incentive would be receivable.
- The performance obligation of the second contract is to collect the supply of fruit. The transaction price is determined using a forecasted Orchard Gate Return (OGR). Revenue is recognised when crops are picked.

Interest revenue

Interest income is recognised on a time–proportion basis using the effective interest method.

Dividend revenue

Dividend revenue is recognised when the right to receive a dividend has been established.

Rent revenue

Rental income is recognised on a straight–line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is based on the first–in first–out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(e) Biological assets

Biological assets represent the value of developing the fruit due to be harvested in the following year. Biological assets are capitalised leased orchard expenses carried forward in the Statement of Financial Position as an asset and recognised at the same time as the income to which they relate, i.e. against the crop proceeds from the following year. Due to there being insufficient biological transformation as at reporting date, the Group has determined that cost approximates fair value. Costs include labour, materials and other direct costs allocated to the asset.

(f) Property, plant and equipment

All items of property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment includes its purchase/construction price, costs directly attributable to bringing it to the location and condition necessary for it to operate as intended. Where an item of property, plant and equipment is self–constructed, its construction cost includes the cost of materials and direct labour and an appropriate proportion of production overheads. Subsequent costs are added to the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably.

After initial recognition, all items of property, plant and equipment, except land and improvements and buildings are measured at cost less accumulated depreciation and impairment losses.

Land and improvements and buildings are measured at revalued amounts less any subsequent depreciation and impairment losses plus the cost of additions since last revaluation. Revaluations are undertaken by an independent registered valuer with sufficient frequency to ensure that the carrying value of the item does not differ materially from its fair value. Increases in the carrying amount arising from revaluations are credited to Other Reserves in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss. Decreases that offset previous increases of the same asset are charged against Other Reserves directly in equity; all other decreases are charged to the profit or loss. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the asset and the net amount is restated to the revalued amount of the asset.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (i.e. if the asset is impaired). An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with the carrying amount of the asset being disposed of and are included in profit or loss. Upon disposal or derecognition of a revalued asset, any revaluation reserve relating to the particular asset is transferred to retained earnings.

Depreciation

Land is not depreciated. Capital works in progress are not depreciated until completed and available for use. Depreciation on other assets is calculated using the straight–line and diminishing value methods to allocate their cost or revalued amounts to their residual values over their estimated useful lives. The residual value and useful lives of all assets are reviewed and adjusted if appropriate at each reporting date.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation basis	
Land improvements	4%	Diminishing value
Buildings	2.0 – 48%	Straight line
Plant and equipment	2.0 – 60%	Diminishing value
Furniture and fittings	9.5 – 60%	Diminishing value

(g) Leases

As lessee, lease liabilities are measured at the present value of future lease payments, discounted at the rate implicit in the lease or at the Group's weighted average incremental borrowing rate which ranges between 4.3% and 4.8%.

Right of use assets are initially accounted for at cost, comprising the initial amount of the lease liability. Right of use assets are subsequently depreciated using the straight–line method over the term of the lease. The majority of leases are coolstore leases and forklifts. The company maintains strong relationships with the Lessors of coolstores as these coolstores are important to enable the company to efficiently store kiwifruit prior to sale. Kiwifruit volumes have increased significantly over the past 5 years and are expected to increase further in future years. When considering the lease term, the Group applies judgement in determining whether it is reasonably certain that an extension or termination option will be exercised.

Transition

The Group applied NZ IFRS 16 from 1 January 2019 using the modified retrospective approach.

In assessing whether an agreement contains a lease the group considers whether that agreement conveys the right to control the use of the asset for a period of time in exchange for consideration. In assessing whether an agreement conveys the right to control the use of an asset, the group assesses whether:

- the agreement includes the use of an identified asset
- throughout the term of the agreement, the group has the right to receive the economic benefits from the use of the asset
- the group has the right to direct the use of the asset

The following practical expedient, available from NZ IFRS 16, was applied by the group on transition:

- to not recognise right of use assets and liabilities for short term leases with lease terms ending within 12 months from date of transition. These costs associated with these leases are recognised in profit or loss
- to not reassess whether an agreement is, or contains a lease, at the date of transition if such agreement was previously assessed under NZ IAS 17 and IFRIC 4.

(h) Income tax

The income tax expense is the tax payable on the current period's taxable income based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

(i) Foreign currency

Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

Liabilities for employee entitlements are carried at the present value of the estimated future cash flows.

Wages, salaries, statutory days in lieu, annual leave, and sick leave

Liabilities for wages and salaries, including non–monetary benefits, statutory days in lieu, annual leave and sick leave are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Bonus plan

The Group recognises bonuses when it is contractually obliged to make such payments, or when there is a past practice that has created a constructive obligation to make such payments.

Superannuation plans

The Group pays contributions to superannuation plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short–term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(l) Finance costs

Finance expenses comprise interest expense on borrowings (except when capitalised to a qualifying asset), unwinding of the discount on provisions, foreign currency losses, and impairment losses recognised on financial assets (except for trade receivables and intercompany advances). Finance costs also includes lease liability interest costs.

Finance costs are expensed using the effective interest method.

(m) Impairment of non–financial assets

Non–financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre–tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash–generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss except to the extent that the impairment offsets a previous revaluation increase in the same asset, in which case the impairment is charged against other reserves in equity.

Non–financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification depends on the purpose for which the investments were acquired and the nature of the cashflows. Management determines the classification of its investments at the initial recognition and re–evaluates this designation at every reporting date.

Loans and receivables at amortised cost

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non–current assets.

The Group's loans and receivables comprise trade and other receivables, intercompany advances, unpaid Transactor Shares and cash and cash equivalents. Loans and receivables are carried at amortised cost using the effective interest method.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise: Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant. Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

The Group has made an irrevocable election at initial recognition for financial assets, being investments in shares to be presented as fair value through other comprehensive income as they are not held for trading.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income.

The Group has no financial assets classified as financial assets at fair value through the profit or loss as they have elected to classify financial assets held as fair value through other comprehensive income.

Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. Immaterial investments in equity instruments that do have a quoted market price in an active market and whose fair values cannot be reliably measured are recognised and subsequently carried at cost, on the basis that this approximates fair value.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(o) Financial liabilities

The Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost. Financial liabilities measured at amortised cost include trade and other payables, refunds due to resigned shareholders and borrowings. These financial liabilities are recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost. Any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowing using the effective interest method.

The Group does not have any financial liabilities measured at fair value through profit or loss.

(p) Transactor shares

Transactor share capital is classified as a liability as they are redeemable at the option of the shareholder and the Group has five years to make the repayment (see Note 17). When Transactor share capital is redeemed it becomes a 'Refund Due to Resigned Shareholders' until repayment is made (see Note 18). Rebates payable to Transactor shareholders are recognised in profit or loss on an accruals basis.

(q) Dividend distribution

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Dividend distribution to the Company shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's Directors.

(r) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

As stated in Note 4 the group has recognised expected credit losses for all trade receivables. Debts which are known to be uncollectible are written off. As the Group experiences minimal impairment of receivables, the allowance for expected credit loss is established based upon the payment profiles and historical credit losses adjusted for forward looking information regarding customers' ability to pay.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Estimates and judgments are based on past performance and management's expectation for the future.

In the application of NZ IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Valuation of land and improvements and buildings

Land and improvements and buildings are measured at fair value as determined by an independent valuer. The independent valuer uses valuation techniques which are inherently subjective and involve estimation. Further information is provided in Notes 5 & 25.

Investment in unlisted companies

Management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Further information is provided in Note 26.

Lease calculations

In the process of adopting NZ IFRS 16: Leases, a number of judgements and estimates have been made. These include:

- Incremental borrowing rate at time of adoption
- Lease terms, including any rights of renewals expected to be exercised
- Application of practical expedients and recognition exemptions allowed by the new standard, including in respect of low value assets and short–term Lease exemptions.

Biological assets

Management has made the judgement that cost approximates fair value for biological assets on the basis that the vines have undergone insufficient biological transformation as at balance date. For further details, refer Note 22.

NOTE 3: NEW STANDARDS

Standards, interpretations and amendments to published standards that became effective during the year:

The followings standards have been adopted during the year:

From 1 January 2019 the Group applied NZ IFRS 16 using the modified retrospective transition approach. Comparative information and opening equity are therefore not restated. Refer to Note 1 (g) and 15 for details of the accounting policies and the impact from adopting NZ IFRS 16.

Standards, interpretations and amendments to published standards that are not yet effective:

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective:

NZ IFRS 17 'Insurance Contracts'. The new standard is not expected to have a material impact on the Group financial statements.

NZ IFRS 3 'Definition of a Business' Amendments. It is not expected to have a material impact on the Group financial statements.

NZ IAS 1 and IAS 8 'Definition of Materiality' Amendments. It is not expected to have a material impact on the Group financial statements.

The Group expects to adopt the above standards and interpretations in the period in which they become mandatory.

NOTE 4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including currency risk and interest rate risk) and capital risk.

(a) Credit Risk

To the extent that the Group has a receivable from another party, there is a credit risk in the event of non–performance by that counterparty. Financial instruments which potentially subject the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables, intercompany advances and unpaid Transactor Shares. The Group manages its exposure to credit risk to minimise losses from bad debts. The Group generally has the ability to withhold either rebates or dividends from receivables owing from growers and transacting shareholders. Management also actively monitor and manage other receivables. In respect of cash and cash equivalents, the Group monitors the credit quality of major financial institutions that are counter parties to its financial instruments, and does not anticipate non–performance by the counter parties. Management assesses there to be no significant credit risk associated with intercompany advances or unpaid transactor share capital.

Exposures to credit risk at balance date are:

	2019 ($000'S)	2018 ($000'S)
Cash and cash equivalents	1,663	9,173
Trade and other receivables	7,879	8,222
Unpaid Transactor Shares	98	98
Total net receivables	7,977	8,320

The above maximum exposures are net of any recognised impairment losses in these financial instruments. No collateral is held on the above amounts.

Concentrations of Credit Risk

At reporting date the majority of the Group's cash and cash equivalents were with the Bank of New Zealand, which has a high credit rating. The Group does not have any other significant concentration of credit risk as receivables are spread over a large number of customers, however, a significant majority of these receivables are owed by third parties from within the Kiwifruit industry.

Status of trade and other receivables

Group	2019 GROSS ($000'S)	2019 IMPAIRMENT ($000'S)	2018 GROSS ($000'S)	2018 IMPAIRMENT ($000'S)
Not yet due	6,642	–	7,256	–
Overdue 0–31 days	503	–	386	–
Overdue 31–91 days	262	–	289	–
Overdue 92–184 days	429	–	8	–
Overdue more than 184 days	97	54	336	54
Total trade and other receivables	7,933	54	8,276	54

Expected credit loss

Due to the nature of trade receivables, minimal loss is expected to occur, and the majority of receivables are not overdue. The Group has calculated its expected credit loss allowance using the simplified approach which calculates the expected credit loss over the lifetime of the receivables. The Group recognised an expected credit loss allowance at reporting date of $54,000 (2018 $54,000).

NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations in relation to financial liabilities as they fall due. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. See Note 19 for further details regarding the Group's borrowing facilities.

2019	STATEMENT OF FINANCIAL POSITION ($000'S)	CONTRACTUAL CASH FLOWS ($000'S)	6 MONTHS OR LESS ($000'S)	6 – 12 MONTHS ($000'S)	1 – 2 YEARS ($000'S)	2 – 5 YEARS ($000'S)	> 5 YEARS ($000'S)
Borrowings	85,000	91,495	16,533	1,516	73,446	–	–
Lease liabilities	4,007	4,460	733	606	1,132	1,945	45
Transactor share capital	27,947	27,947	–	–	–	–	27,947
Trade and other payables	18,220	18,220	18,220	–	–	–	–
Refunds due to resigned shareholders	2,006	2,006	428	472	781	325	–
	137,180	144,128	35,914	2,593	75,359	2,269	27,992

2018	STATEMENT OF FINANCIAL POSITION ($000'S)	CONTRACTUAL CASH FLOWS ($000'S)	6 MONTHS OR LESS ($000'S)	6 – 12 months ($000'S)	1 – 2 years ($000'S)	2 – 5 years ($000'S)	> 5 YEARS ($000'S)
Borrowings	71,396	78,118	1,894	11,759	3,248	61,217	–
Transactor share capital	25,632	25,632	–	–	–	–	25,632
Trade and other payables	21,131	21,131	21,131	–	–	–	–
Refunds due to resigned shareholders	2,910	2,910	768	630	774	738	–
	121,069	127,791	23,793	12,389	4,022	61,955	25,632

(c) Market Risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has exposure to foreign exchange risk as a result of transactions denominated in foreign currencies however the exposure is minimal as the Group's normal trading activities are conducted in New Zealand dollars.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has exposure to interest rate risk to the extent that it borrows or invests for a fixed term. The Group manages its cost of borrowing by placing limits on the proportion of borrowings at floating rates, and the proportion of fixed rate borrowing that is repriced in any year.

BNZ borrowings

An increase/decrease of 1% in interest rates would decrease/increase pre–tax profit and equity of the Group by +/– $850,000 (2018: +/– $700,000) if the interest rate change was apparent for the full year and assuming a full drawdown on the term loan of $85m. There are no other significant interest bearing financial instruments subject to interest rate risk.

(iii) Risk Management related to horticulture activities

The Group is exposed to market and production risks associated with the horticulture industry. The major risks are disease, weather events and pests which impact the volumes of fruit to the post harvest operations as well as volumes produced by the Group's orchards and/or leased crops.

NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital Risk

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns to growers, shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and maximise returns. Capital in relation to capital management also includes Transactor shares. In order to maintain or adjust the capital structure, the Group may adjust distributions to shareholders, amount of dividends paid to shareholders, return capital to shareholders, issue new shares, amend capital spending plans or sell assets to reduce debt.

The Shareholders have appointed the Directors to manage the co–operative in order to maximise returns. The Directors, consistent with others in the Kiwifruit industry, monitor and manage capital based on trays supplied and returns to growers and investors.

The Group monitors capital on the basis of its shareholder equity ratio. This ratio is calculated as total equity (including Transactor Shares) divided by total assets.

The shareholder equity ratio at 31 December is:

	2019 ($000'S)	2018 ($000'S)
Total equity (including Transactor Shares)	113,984	108,058
Total assets	234,146	217,496
Shareholder equity ratio	49%	50%

The Group is subject to, and monitors, financial covenants imposed by its lenders from time to time. These covenants include such measures as maintenance of equity ratios and earnings times interest cover. At no stage during the year did the Group breach any of its lending covenants.

The Group has a seasonal funding facility which increases from February to September to cover seasonal cashflow requirements. The Group's current bank facilities total $108 million. At balance date $23 million remained undrawn.

NOTE 5. DETERMINATION OF FAIR VALUE

Fair value measurement for financial assets and liabilities

The fair value of cash and cash equivalents, trade and other receivables, intercompany advances, and trade and other payables approximates their carrying value due to their short term nature. The fair value of Transactor Shares approximates fair value, due to the fixed redemption value and market returns paid by way of rebate.

Fair value measurement

The table below analyses those financial instruments carried at fair value. The different levels of the fair value hierarchy have been defined below.

Level 1: *Quoted prices (unadjusted) in active markets for identified assets or liabilities that the entity can access at the measurement date.*

Level 2: *Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.*

Level 3: *Unobservable inputs for the asset or liability that have to be developed to reflect the assumptions that a market participant would use when determining an appropriate price.*

2019	LEVEL 1 ($000'S)	LEVEL 2 ($000'S)	LEVEL 3 ($000'S)
Unlisted equity shares	–	6,875	–
Land and improvements and buildings	–	–	135,477
	–	6,875	135,477

2018	LEVEL 1 ($000'S)	LEVEL 2 ($000'S)	LEVEL 3 ($000'S)
Unlisted equity shares	–	3,979	–
Land and improvements and buildings	–	–	127,407
	–	3,979	127,407

The fair value measurement for land and buildings has been categorised as Level 3, as the inputs used as part of the valuation techniques are based on unobservable inputs. There were no transfers into or out of Level 3 of the fair value hierarchy during the reporting period.

NOTE 5. DETERMINATION OF FAIR VALUE (CONTINUED)

The following shows each valuation technique used in measuring the fair value of land and buildings, as well as the significant unobservable inputs used and the inter–relationship between the key unobservable inputs and fair value measurement.

(a) Land and improvements and buildings

The fair value of land and buildings is determined using valuations by an independent valuer as set out in Note 25. In conducting the valuations, the valuer considered 3 different approaches to arrive at the fair value of the land and improvements and buildings. A weighted average of the 3 valuation methods is applied to derive the final valuation, with greater weighting applied to the income capitalisation approach and equal weighting applied to the discounted cash flow approach and market approach. The information below relates to the valuations undertaken at 31 December 2018.

Replacement cost less depreciation approach

The current market rental calculated under the income capitalisation approach is used to forecast net cash flows over a ten year period. Allowances are made for expected rental growth and estimated costs incurred to maintain the land & buildings. Having determined the net annual income, a terminal value is established using a terminal capitalisation rate (10.5% – 11.75%). Cash flows are discounted at a market related discount rate (10.25% – 11.5%).The present value of the aggregate of each cash flow establishes market value. This method assumes land & buildings are sold in the terminal year.

Key unobservable inputs	***Inter–relationship between key unobservable inputs and fair value measurement***
Current market rental	*Higher building costs results in increased fair value. Lower building costs results in a decreased fair value.*
Discount rate	*Higher discount rate results in decreased fair value. Lower discount rate results in an increased fair value. Specifically, an increase in the discount rate of 0.25% would decrease the fair value by approximately $1,792,000 and a decrease in the discount rate of 0.25% would increase the fair value by approximately $1,830,000.*
Terminal capitalisation rate	*Higher capitalisation rate results in decreased fair value. Lower capitalisation rate results in an increased fair value. Specifically, an increase in the capitalisation rate of 0.25% would decrease the fair value by approximately $1,090,000 and a decrease in the capitalisation rate of 0.25% would increase the fair value by approximately $1,139,000.*

Income capitalisation approach

Assumes a hypothetical lease of the property with a current market rental being established and capitalised at an appropriate rate of return (10.0% – 11.25%) that would be expected by a prudent investor.

Key unobservable inputs	***Inter–relationship between key unobservable inputs and fair value measurement***
Current market rental	*Higher market rental results in increased fair value. Lower market rental results in a decreased fair value.*
Capitalisation rate of return	*Higher capitalisation rate results in decreased fair value. Lower capitalisation rate results in an increased fair value. Specifically, an increase in the capitalisation rate of 0.25% would decrease the fair value by approximately $2,932,000 and a decrease in the capitalisation rate of 0.25% would increase the fair value by approximately $3,071,000.*

Market comparison

Considers recent sales of other comparable type properties.

Key unobservable inputs	***Inter–relationship between key unobservable inputs and fair value measurement***
Current market sales	*Higher market sales results in increased fair value. Lower market sales results in a decreased fair value.*

Valuer's assumptions

In preparing the valuation reports, the valuer has made the assumption that the property will continue to be occupied by the existing business and accordingly the valuations are based on a notional lease being in place with a market rental being paid.

NOTE 6. REVENUE

The Group's major revenue streams are post harvest operations, orchard management and retail services.

Rebates are discretionary payments made to transactor shareholders based on the number of trays supplied and are therefore presented as a reduction to revenue.

	2019 ($000'S)	2018 ($000'S)
Revenue from contracts with customers		
Post harvest operations	156,532	163,262
– less Rebates	(7,245)	(7,891)
	149,287	155,371
Orchard management	15,539	17,528
Total Revenue from contracts with customers	164,826	172,899
Dividends received	847	647
Rent revenue	0	2
Interest revenue	176	181
Other revenue	4,183	3,102
	170,032	176,831

NOTE 7. OTHER EXPENSES

	2019 ($000'S)	2018 ($000'S)
Items included in other expenses:		
Repairs and maintenance	3,664	4,238
Insurance	2,813	1,782
Electricity	6,230	5,300
Transport costs	521	559
Sundry packaging expenses	766	803
Licence fees	1,581	1,184
Plant and equipment hire	1,020	1,390
Vehicle expenses	1,047	935
Loss compensations	465	659
Leased orchard expenses	10,082	12,628
Administration costs	4,198	3,964
Wharf costs	531	496
Sponsorship	62	177
Research & development write off	1,174	1,479
Auditors remuneration:		
Amounts paid or payable to the auditors for:		
Internal Audit Services – KPMG	–	67
Auditing the financial statements – KPMG	102	–
	102	67

NOTE 8. INCOME TAX

	2019 ($000'S)	2018 ($000'S)
Income tax expense:		
Current tax expense/(income)	2,445	4,389
Deferred tax expense/(income)	(723)	(749)
	1,722	3,640

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

Prima facie income tax payable on profit before tax	2019 ($000'S)	2018 ($000'S)
Income tax at 28% (2018: 28%)	1,789	3,775
Tax effect of		
• Non deductible expenses	137	35
• Non assessable income	(7)	(0)
• Imputation credits received	(197)	(181)
• Adjustments of prior years	–	12
Income tax expense	1,722	3,640

There are no unrecognised tax losses or temporary differences carried forward (2018: Nil).

Deferred taxation balances	2019 ($000'S)	2018 ($000'S)
Deferred tax assets		
Stock obsolescence	219	170
Employee entitlements	208	197
Trade and other payables	13	130
Trade and other receivables	15	15
	455	512
Deferred tax liabilities		
Property, plant and equipment	(8,461)	(9,602)
Biological assets	(907)	(738)
	(9,368)	(10,340)
Net deferred tax assets/(liabilities)	(8,913)	(9,828)

Deferred taxation movements recognised in income	2019 ($000'S)	2018 ($000'S)
Deferred tax assets		
Stock obsolescence	48	15
Employee entitlements	11	17
Trade and other payables	(117)	(25)
Trade and other receivables	1	5
	(57)	12
Deferred tax liabilities		
Property, plant and equipment	1,141	610
Biological assets	(169)	127
	972	737
Net deferred tax income/(expense)	915	749

NOTE 8. INCOME TAX (CONTINUED)

Deferred taxation movements in equity	2019 ($000'S)	2018 ($000'S)
Deferred tax liabilities		
Property, plant and equipment	192	(1,123)
	192	(1,123)

Provision for Taxation	2019 ($000'S)	2018 ($000'S)
Balance as at 1 January	(1,688)	(1,539)
Income tax expense	(1,722)	(3,640)
Income tax expense attributable to deferred tax	(723)	(749)
Income tax payments during the year	3,890	4,240
Balance as at 31 December	(243)	(1,688)

Imputation Credit Account	2019 ($000'S)	2018 ($000'S)
Imputation credits available for use in subsequent reporting periods	14,425	17,292

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

a. Imputation credits that will arise from the payment of the amount of the provision for income tax
b. Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
c. Imputation credits that will arise from the receipts of dividends recognised as receivables at the reporting date.

NOTE 9. EARNINGS PER SHARE

	2017 ($000'S)	2016 ($000'S)
Profit attributable to ordinary shareholders	4,749	9,843
Weighted average number of Ordinary Shares issued	29,825,154	29,825,154
Basic earnings per share	$0.16	$0.33
Diluted earnings per share	$0.16	$0.33

The calculation of basic and diluted earnings per share is based on profit attributable to ordinary shareholders divided by the weighted average number of ordinary share on issue during the year.

NOTE 10. SHARE CAPITAL

	2019 NO OF SHARES	2018 NO OF SHARES	2019 ($000'S)	2018 ($000'S)
Balance as at 1 January	29,825,154	29,825,154	12,847	12,847
Movements during the year	–	–	–	–
Balance as at 31 December	29,825,154	29,825,154	12,847	12,847

The shareholding in the Company is divided into two classes of shares, being Transactor and Investor shares. Transactor shares are classified as term liabilities. For further details, refer to Notes 17 and 24.

Investor Shares

Investor shares are issued under the Companies Act 1993 and are tradable. All Investor shares rank equally and carry 40% of the voting power (Transactor shares carry 60% of the voting power; for further details, refer to Note 17) of all shares on issue and carry the right to participate in any annual dividends declared by the directors of the Company. Investor shareholders can participate in any surplus assets upon liquidation after the holders of Transactor shares have been paid. There have been no changes to the terms and rights of the shares during the year. All Investor shares issued are fully paid and have no par value.

NOTE 11. OTHER RESERVES

Financial assets at FVOCI	REVALUATION SURPLUS ($000'S)	AFS FINANCIAL ASSETS ($000'S)	FINANCIAL ASSETS AT FVOCI ($000'S)	TOTAL OTHER RESERVES ($000'S)
Balance as at 1 January 2018	21,944	–	3,702	25,646
Revaluation – gross	5,958	–	(23)	5,935
Deferred tax	(1,141)	–	–	(1,141)
Other comprehensive income	4,817	–	(23)	4,794
Balance as at 31 December 2018	**26,761**	**–**	**3,679**	**30,440**
Revaluation – gross	(685)	–	2,291	1,606
Deferred tax	192		–	192
Other comprehensive income	(493)	–	2,291	1,798
Balance as at 31 December 2019	**26,268**	**–**	**5,970**	**32,238**

The asset revaluation portion of other reserves relates to the revaluation of land and improvements and buildings. For further details, refer to Note 25.

NOTE 12. DISTRIBUTION TO OWNERS

	2019 ($000'S)	2018 ($000'S)
Investor shares – dividend paid	2,790	2,575
Total dividends	2,790	2,575

Dividends paid on Investor Shares amounted to 9.4 cents per share fully imputed (2018: 8.6 cents per share).

NOTE 13. TRADE AND OTHER PAYABLES

	2019 ($000'S)	2018 ($000'S)
Trade payables	5,715	5,194
Sundry payables	9,935	9,021
GST payable	17	1,870
Related party payables	2,553	5,906
	18,220	21,991

NOTE 14. CONTRACT LIABILITIES

	2019 ($000'S)	2018 ($000'S)
Income in advance	717	625

Managed orchards that pay a fixed monthly instalment to cover costs may have paid the Group more than the actual costs as at 31 December 2019. Revenue recognised that was included in the contract liability balance at the beginning of the period equates to the opening balance of contract liabilities. Revenue recognised in the reporting period from performance obligations satisfied in the previous periods also relate to the opening balance of contract liabilities. The balance as at 31 December 2019 reflects the performance obligation required to be met in 2020.

NOTE 15. LEASES

Information about the leases for which the Group is a lessee is presented below.

a) Right of use assets	LAND BUILDINGS AND IMPROVEMENTS ($000'S)	OTHER PLANT AND EQUIPMENT ($000'S)	TOTAL ($000'S)
Opening book value 1 January 2019	–	–	–
Movement on transition	2,174	1,550	3,724
Additions		1,462	1,462
Depreciation for the period	(694)	(558)	(1,252)
Closing book value 31 December 2019	**1,480**	**2,454**	**3,934**
Cost	3,764	4,272	8,036
Accumulated depreciation	2,284	1,818	4,102

b) Lease liabilities	MINIMUM LEASE PAYMENTS ($000'S)	INTEREST ($000'S)	PRESENT VALUE ($000'S)
Within one year	1,339	(177)	1,162
One to five years	3,076	(271)	2,805
Beyond five years	45	(5)	40
Total	**4,460**	**(453)**	**4,007**
Current			1,162
Non-current			2,845

NOTE 15. LEASES (CONTINUED)

c) Lease expenses included in profit or loss	2019 ($000'S)
Short term lease	599
Interest	245

d) Transition to NZ IFRS 16 Leases	2019 ($000'S)
Opening lease commitment at 31 December 2018 as disclosed in the Groups financial statements:	1,085
Discounted using the incremental borrowing rate at 1 January 2019	1,050
Finance lease liabilities as at 1 January 2019	1,396
Recognition exemption for:	
Extension options reasonably certain to be exercised	1,563
Lease liabilities recognised at 1 January 2019	4,009

On transition to NZ IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The Statement of Change in Equity has been adjusted by $148k to reflect the movement in retained earnings due to the application of NZ IFRS 16.

The following table details the impact of the adoption of NZ IFRS 16 on the Income Statement.

	($000'S)
Operating Expenses	(1,075)
Earnings before interest, tax, depreciation and fair value adjustments	**1,075**
Depreciation	954
Interest costs	101
Net profit/(loss) before taxation	**20**

NOTE 16. EMPLOYEE ENTITLEMENTS

	2019 ($000'S)	2018 ($000'S)
Balance as at 1 January	1,001	927
Net movement in provision	55	74
Balance as at 31 December	1,056	1,001

NOTE 17. TRANSACTOR SHARE CAPITAL

	2019 NO OF SHARES	2018 NO OF SHARES	2019 ($000'S)	2018 ($000'S)
Balance as at 1 January	25,631,613	23,348,722	25,632	23,349
Transactor shares issued or re-instated during the year	2,983,560	3,417,912	2,984	3,418
Transactor shares sold during the year	(667,773)	(1,135,021)	(668)	(1,135)
Balance as at 31 December	27,947,400	25,631,613	27,948	25,632

Transactor Shares

Transactor Shares are issued by the Company to growers of kiwifruit or other approved produce. Transactor shares rank equally, are not freely tradable, and carry 60% of the voting power (Investor shares carry 40% of the voting power; for further details, refer to Note 10) of all shares on issue. Transactor shareholders have the right to participate in any annual rebate declared by the directors of the Company. They carry first right of redemption on liquidation of the company at $1.00 each.

NOTE 18. REFUNDS DUE TO RESIGNED SHAREHOLDERS

	2019 ($000'S)	2018 ($000'S)
Balance as at 1 January	2,910	2,556
Movement during the year	(904)	354
Balance as at 31 December	2,006	2,910
This is represented by:		
Current liability	901	1,398
Non-current liability	1,105	1,512
	2,006	2,910

Refunds due to Transactor shareholders who have resigned from the Company are unsecured and repayable by the Company over a five year period after resignation is accepted by the Board. Fair value is estimated as the present value of the future cash flows using a discount rate of 5.5% (2018: 5.5%).

NOTE 19. BORROWINGS

	2019 ($000'S)	2018 ($000'S)
Term Loans		
Current portion	15,000	10,000
Non current portion	70,000	60,000
	85,000	70,000

The current portion represents borrowings which have a maturity date of less than twelve months from reporting date. The Group's total facility with the Bank of New Zealand is $108m (2018: $105m). The current interest rates on the secured borrowings range from 2.77% to 4.33% (2018: 4.45% to 5.42%). The current facility with the Bank of New Zealand expires in February 2021.

Due to the seasonal nature of the Group's business with revenues primarily earned between March and November, and short term borrowings of $15 million, the Group's current liabilities exceed the Group's current assets as at 31 December 2019. Despite this fact, the Group does not have any liquidity or working capital concerns as a result of the seasonal funding facilities available to the group and the expected cashflows expected to be generated by the business once the 2020 season commences.

Security

The Bank of New Zealand holds a perfected security interest in all present and after acquired property of the Group and a registered first mortgage over all land and buildings of the Group.

Banking covenants

The Group is subject to various banking covenants as part of the Group's total facility with the Bank of New Zealand. The Group monitors these banking covenants on a regular basis. The Group did not breach any of these banking covenants during the year.

NOTE 20. CASH AND CASH EQUIVALENTS

	2019 ($000'S)	2018 ($000'S)
Funds in bank	1,663	9,173

NOTE 21. TRADE AND OTHER RECEIVABLES

	2019 ($000'S)	2018 ($000'S)
Current		
Trade receivables	7,362	4,993
Expected credit loss allowance	(54)	(54)
Sundry receivables	534	3,207
Prepayments	920	578
Current balance at 31 December	8,762	8,725

NOTE 22. BIOLOGICAL ASSETS

	2019 ($000'S)	2018 ($000'S)
Balance at 1 January	3,406	3,831
Costs capitalised	3,654	3,406
Costs released to profit and loss	(3,406)	(3,831)
Balance at 31 December	3,654	3,406

Expenses incurred by the Group to prepare leased orchards for the next crop season are capitalised and recognised as a biological asset in the Statement of Financial Position at balance date. Costs are then released to profit or loss in the financial year in which the crops are harvested. No costs are capitalised for more than one season.

NOTE 23. INVENTORIES

	2019 ($000'S)	2018 ($000'S)
Packaging stock	3,344	2,575
Pollen stock	913	650
Provision for obsolescence	(605)	(605)
Other materials and chemicals	314	275
	3,966	2,895

All inventories are subject to retention of title clauses.

NOTE 24. UNPAID TRANSACTOR SHARES

	2019 ($000'S)	2018 ($000'S)
97,786 shares valued at $1.00 (2018: 97,786 shares valued at $1.00)	98	98
Opening balance	98	98
Rebate withheld	–	–
Closing balance	98	98

Where the Company has issued shares and payment has not been made in full, there is a deferred settlement over a set period of time. Payment for calls on Transactor Shares is then deducted from rebates and dividends payable to those shareholders. The current portion of unpaid Transactor Shares is based on the expected share call for the 2019 season. The expected share call for the 2019 season is Nil. (2018: Nil).

NOTE 25. PROPERTY, PLANT AND EQUIPMENT

	2019 COST/ VALUATION ($000'S)	2019 ACCUMULATED DEPRECIATION ($000'S)	2019 BOOK VALUE ($000'S)	2018 COST/ VALUATION ($000'S)	2018 ACCUMULATED DEPRECIATION ($000'S)	2018 BOOK VALUE ($000'S)
Buildings	145,588	34,257	111,331	131,287	29,201	102,086
Land and improvements	26,888	2,742	24,146	27,721	2,401	25,321
Plant and equipment	146,241	95,242	50,999	146,119	93,037	53,082
Furniture and fittings	2,957	1,866	1,091	2,356	1,721	636
Capital work in progress	17,552	–	17,552	7,461	–	7,461
	339,226	134,107	205,119	314,944	126,359	188,585

If land and buildings had been carried at cost less depreciation, the carrying amounts would have been:

	2019 ($000'S)	2018 ($000'S)
Buildings	88,955	77,792
Land and improvements	19,860	21,035

Each class of land and improvements and buildings is revalued to their estimated fair value on a rolling three year cycle unless there is evidence that indicates the carrying value of these may differ significantly from the fair value. The directors made the decision to revalue land and improvements and buildings as at 31 December 2018. Land and improvements and buildings were revalued to their estimated fair value in accordance with the valuation reports dated between 30 November 2018 and 29 January 2019 by independent registered valuer, Paul Higson (ANZIV, MPINZ) and Michael Reay (ANZIV, MPINZ) of the firm Telfer Young (Tauranga) Limited ("valuer").

The Directors determined in 2019 that there was no evidence that the fair value of land and buildings would vary significantly from the carrying value of the assets and therefore no revaluation of land and buildings have been carried out in the 2019 financial year. In late 2019 the company received new information on the final costs for earthworks associated with buildings constructed in the period 1 January 2015 to 31 December 2018. As fair value of the land and buildings had been determined as at 31 December 2018, a fair value adjustment of $2,131,610 has been made to the financial statements as at 31 December 2019 to reflect the costs associated with these earthworks.

Valuations	2019 ($000'S)	2018 ($000'S)
Impact of valuation		
Revaluation through profit or loss	(2,132)	(924)
Revaluation through asset revaluation reserve	(686)	5,939
	(2,818)	5,015

NOTE 25. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in carrying amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period are as follows:

	BUILDINGS ($000'S)	FURNITURE AND FITTINGS ($000'S)	PLANT AND EQUIPMENT ($000'S)	LAND AND IMPROVEMENTS ($000'S)	CAPITAL WIP ($000'S)	TOTAL ($000'S)
2019						
Balance at 31 December 2018	102,086	636	53,082	25,321	7,461	188,585
Transfer of ROU Assets NZ IFRS 16			(1,258)			(1,258)
Balance at 1 January 2019	102,086	636	51,824	25,321	7,461	187,328
Additions	15,320	608	9,250	810	10,713	36,701
Transfers from Capital WIP	304	(8)	(140)	(1,682)	1,526	–
Revaluations	(686)	–	–	–	(2,132)	(2,818)
Disposals	(329)	–	(60)	–	–	(389)
Write off of assets	–		(9)	–	(16)	(25)
Depreciation expense	(5,364)	(145)	(9,866)	(303)	–	(15,678)
Carrying amount at 31 December 2019	111,331	1,091	50,999	24,146	17,552	205,119
2018						
Balance at 1 January 2018	102,702	703	40,258	21,194	8,051	172,908
Additions	4,631	50	13,511	923	8,949	28,064
Transfers from Capital WIP	1,377	–	5,158	1,525	(8,060)	–
Revaluations	3,065	–	–	1,950	–	5,015
Revaluations reclassifications	(4,742)		4,742			–
Disposals	–	–	(318)	–	–	(318)
Write off of assets			(16)		(1,479)	(1,494)
Depreciation expense	(4,948)	(118)	(10,253)	(271)	–	(15,589)
Carrying amount at 31 December 2018	102,086	636	53,082	25,321	7,461	188,585

NOTE 26. INVESTMENTS

	2019 ($000'S)	2018 ($000'S)
Financial instruments held at fair value through other comprehensive income	6,875	4,539
Investments in associates	75	75
	6,950	4,614

a) Financial instruments held at fair value through other comprehensive income	2019 ($000'S)	2018 ($000'S)
Shares in unlisted companies	6,875	4,539
Shares in unlisted companies		
Opening balance	4,539	4,569
Disposals	(110)	(46)
Revaluation	2,446	16
Closing balance	6,875	4,539
Total Investments in shares	6,875	4,539

Investments in other entities are measured at fair value, based on the closing share price at reporting date where this is available.

b) Investments in associates	2019 ($000'S)	2018 ($000'S)
The Nutritious Kiwifruit Company Ltd	75	75

Associate companies	2019 PERCENTAGE HELD	2018 PERCENTAGE HELD	BALANCE DATE	INCORPORATED IN
The Nutritious Kiwifruit Company Ltd	50%	50%	31 March	New Zealand
Tauranga Kiwifruit Logistics Limited	34%	34%	28 February	New Zealand

Tauranga Kiwifruit Logistics Ltd is engaged in wharf logistics out of the Port of Tauranga. The Nutritious Kiwifruit Company Ltd is engaged by the Group to sell, market and export kiwifruit to the Australian market.

All associate companies are incorporated in New Zealand and are accounted for using the equity method. There are no significant restrictions on the ability of any associate companies to pay dividends, repay loans or otherwise transfer funds to the investor company. No associate companies have a quoted market price for the investment. No commitments or contingencies are present with associate companies. The financial performance of all associates for the period ending 31 December 2019 has been incorporated in these financial statements.

	2019 ($000'S)	2018 ($000'S)
Interests in associate companies		
Carrying value	75	75
	75	75

NOTE 26. INVESTMENTS (CONTINUED)

c) Subsidiaries:	2019 PERCENTAGE HELD	2018 PERCENTAGE HELD	BALANCE DATE	INCORPORATED IN
Southlink Supply Ltd	100%	100%	31 December	New Zealand
EastPack Avocado Company Ltd	100%	100%	31 December	New Zealand
Bay Hort (1991) Ltd	100%	100%	31 December	New Zealand
Bay of Plenty Fruitpackers Ltd	100%	100%	31 December	New Zealand
BayPak Ltd	100%	100%	31 December	New Zealand
BayPak Growers Ltd	100%	100%	31 December	New Zealand
New Zealand Orchard Investment Ltd	100%	100%	31 December	New Zealand
Satara Kiwifruit Supply Ltd	100%	100%	31 March	New Zealand
Satara Ventures Ltd	100%	100%	31 December	New Zealand
Stroba Ltd	100%	100%	31 December	New Zealand
Stroba Systems Ltd	100%	100%	31 December	New Zealand
Te Matai Kiwi No1 Ltd	100%	100%	31 December	New Zealand
Zest BOP Ltd	100%	100%	31 December	New Zealand

Southlink Supply Ltd provide admin services and industry representation in respect of produce supplied.

EastPack Avocado Company Ltd is an avocado supplier.

All other subsidiaries are non operating.

NOTE 27. RECONCILIATION OF NET SURPLUS WITH CASH FROM OPERATING ACTIVITIES

	2019 ($000'S)	2018 ($000'S)
Net profit/(loss) after tax	4,749	9,843
Add/(less) Non cash items		
Depreciation	16,930	15,589
Bonus issue of shares in unlisted companies	(91)	(38)
Deferred tax expense/(income)	(723)	(749)
Fair value movement in loans and refunds due to resigned shareholders	27	(2)
Loss/(gain) on revaluation of land and buildings	2,132	924
	18,275	15,724
Movement in Working Capital		
(Decrease)/increase in trade and other payables, excluding movement relating to purchases of property, plant and equipment	(3,897)	(528)
(Decrease)/increase in employee entitlements	56	75
Decrease/(increase) in trade and other receivables	(37)	(884)
(Decrease)/increase in biological assets	(248)	425
Decrease/(increase) in inventory	(1,071)	(240)
(Decrease)/increase in income in advance	92	217
(Decrease)/increase in tax payable	(1,445)	149
	(6,550)	(786)
Items classified as investing/financing activities		
Loss/(gain) on sale of investments	(45)	–
Loss/(gain) on sale of property, plant and equipment	338	96
	293	96
Net cash flow from operating activities	16,767	24,877

NOTE 28. TRANSACTIONS WITH RELATED PARTIES

(a) Key management personnel

Key management includes all personnel whom have the authority and responsibility for planning, directing and controlling the activities of the Group. This includes senior management and directors.

Key management personnel compensation:

	2019 ($000'S)	2018 ($000'S)
Short-term employee benefits (including directors remuneration)	2,826	2,751

Transactions with entities controlled by key management personnel and directors

Post–harvest charges, rebates and dividends

Several members of the Group's key management personnel are shareholders and/or directors of entities that pack their fruit with EastPack Limited. These entities are charged at the standard rates charged to other growers and pay for these charges via the EastPack Entity Trust. These entities are also entitled to rebates and dividends in accordance with the same rules applied to other transactor and investor shareholders. The total rebates and dividends paid to these entities is as follows:

	2019 ($000'S)	2018 ($000'S)
Rebates	477	500
Dividends	598	473

In addition to the above, members of the Group's key management personnel are also shareholders and/or directors in organisations who provide services to the Group. Such services include orchard contracting services, rental services, kiwifruit bin cartage and orchard materials and consumables. The amounts paid to such entities are as follows:

	2019 ($000'S)	2018 ($000'S)
Consulting and orchard contractor charges	586	799
Operating lease costs	261	318
Kiwifruit bin cartage	59	77
Orchard materials and consumables	–	750

Loans and advances

On 21 December 2009, EastPack Limited advanced $500,000 to Pine Valley Limited at an interest rate of 0% in consideration for the first right of refusal to lease the Pine Valley site. Pine Valley Limited is a related party as M J Montgomery is a Shareholder and Director of Pine Valley Limited and a Director/Shareholder of the Group. The advance is secured over the investor and Transactor Shares held by Pine Valley Limited.

(b) Other related party transactions

EastPack Entity Trust

EastPack Entity Trust is a related party that acts as an administrator of revenues and expenses for the sale of kiwifruit on behalf of growers. EastPack Limited received $157,892,654 (2018: $166,706,000) for the provision of services to EastPack Entity Trust and paid EastPack Entity Trust $470,000 (2018: $672,000) for second hand packaging purchased from the Trust. EastPack Entity Trust paid an administration fee of $750,000 to EastPack Limited for services provided. A balance of $2,552,784 (2018: $5,906,000) was payable to EastPack Entity Trust as at 31 December 2019.

Subsidiaries and associates

Related parties of the group include subsidiaries and associates disclosed in note 26, and key management personnel (directors and the senior leadership team).

NOTE 28. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions with external related parties through control or significant influence

	($000'S)	($000'S)
Revenue	3,956	3,395
Expenses	4,442	6,316

Guarantees with related parties

Te Matai Kiwi Partnership has a guarantee for the amount of $150,000, plus interest and costs in terms of the BNZ's standard guarantee form from EastPack Limited.

No related party debts have been written off or forgiven during the year (2018: $Nil).

EastPack Entity Trust holds an all obligations unlimited guarantee from EastPack Limited.

NOTE 29. CONTINGENT LIABILITIES

As at 31 December 2019 the company is not aware of any contingent liabilities. During 2019, previous contingent liabilities were either settled or time periods lapsed for any future claim.

NOTE 30. COMMITMENTS

EastPack Group is committed to incur capital expenditure for the expansion of coolstore capacity, extension to packhouses, upgrade of refrigeration equipment and the installation of a new grader and grader technology.

	2019 ($000'S)	2018 ($000'S)
Estimated capital expenditure contracted for at balance date but not provided for	8,056	11,334

NOTE 31. SIGNIFICANT EVENTS AFTER BALANCE DATE

Coronavirus Outbreak

The existence of novel coronavirus (Covid-19) was confirmed in New Zealand in February 2020. The outbreak follows a global spread of the disease causing disruption to businesses and economic activity.

At the time of signing of these financial statements, the New Zealand Government has invoked strict Covid-19 Alert Level conditions in New Zealand resulting in a lock down of New Zealand and restrictions on business activity. It is likely that significant restrictions on movements of people and products will continue for some time. EastPack has been designated as an essential business and can continue to operate under strict protocols. It is not guaranteed that the designation of an essential business will be in place for EastPack for the period that New Zealand is under the Covid-19 restrictions. Whilst the company is operating as an essential business, the company can maintain its financial viability, but additional costs will be incurred to manage within the required protocols and profitability will be impacted.

EastPack considers this outbreak to be a non-adjusting post balance sheet event. The impact of this outbreak on the macroeconomic forecasts will be incorporated into the financial statements for the year ended 31 December 2020.

Capital Structure

On 26 February 2020, at a Special Shareholders Meeting, more than 75% of shareholders for each minority interest group voted in favour of a resolution to convert the company's Transactor Shares and Investor Shares into a new Ordinary Share. At the same meeting, shareholders approved a new constitution for the company. Three shareholders voted against the resolution from which two shareholders requested and the company has agreed to repurchase their current shares under the minority interest buy-out requirements. The shares to be purchased include 91,246 Transactor shares and 400,000 Investor shares. At the valuation of shares as per the proposal the cost to the company of this minority interest buy-out would be $1,063,246. The effective date for the conversion of shares will occur on 19 June 2020 when it is expected that an estimated 100.4m new Ordinary shares will be created.

Independent Auditor's Report

To the shareholders of EastPack Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of EastPack Limited (the 'company') and its subsidiaries (together, the 'Group') on pages 38 to 66:

i. Present fairly in all material respects the Group's financial position as at 31 December 2019 and its financial performance and cash flows for the year ended on that date; and

ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— The consolidated statement of financial position as at 31 December 2019;

— The consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and

— Notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

In the prior year before our audit appointment, our firm provided internal audit and process review services to the group. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1.3 million.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of Land, Land Improvements and Buildings	
As disclosed in note 25, the Group has property, plant, and equipment of $205 million including $135 million of land and buildings which are measured at fair value. The Group has a policy of recording these assets at fair value with periodic valuations performed by an external independent valuer on a three-year cycle. No valuation was performed in the current year as there is not considered to be any indication that fair value has moved materially since the last revaluation. The valuation of these assets is considered a key audit matter due to the judgment required in determining fair values and assessing whether or not fair value has moved materially since the last revaluation.	Our audit procedures included: — Inspecting documentation in relation to the last full revaluation including assessing the valuer(s) competence, objectivity and independence, and assessing the valuation methodologies applied. — Examining management's assessment as to whether or not fair value may have moved materially since the last full revaluation and critically assessing key judgements. — Comparing the key assumptions applied in the last full revaluation to current applicable industry data and considering whether or not this may be indicative of a material movement in fair value. This included considering recent transactions and revaluations performed by other entities. We have no matters to report as a result of our procedures.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes information on the directors, senior leadership and the entities performance for the year including; Company Highlights, the Chairman & CEO's Report, Statement of Corporate Governance, and Statutory Information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other matter

The consolidated financial statements of the group, for the period ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 27 February 2019.

KPMG

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Mark Crawford.

For and on behalf of

KPMG

KPMG
Auckland

29 April 2020

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EastPack
Growers at heart